

**AN EXPLORATORY STUDY OF SOCIAL INNOVATION IN  
FOR-PROFIT SOCIAL ENTREPRENEURIAL VENTURES IN  
INDIA**

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**The following tables/figures  
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request of the university –**

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## **Abstract**

Innovation is identified in extant research as a defining characteristic of social entrepreneurial ventures (SEVs). Social innovations are desirable as they create employment opportunities, develop new industries and introduce new business models that address social needs. In recognition, governments and practitioners worldwide are looking at ways of fostering social innovations. Although there is growing interest in social innovation in various fields of research, there is little evidence of an in-depth empirical exploration of social innovations within the context of SEVs. Further, empirical research on social innovation in developing countries like India is lacking, though India is reported to have high levels of social entrepreneurial activity. This research intends to fill these gaps by empirically investigating social innovations in three for-profit SEVs in India.

This thesis was based on the interpretive paradigm and adopted a subjective stance in exploring social innovations in for-profit SEVs. The objectives of this research are twofold. First, it attempts to understand the resource constraints under which social innovation emerges. Second, it investigates how SEVs overcome resource constraints through novel combinations of different forms of capital in line with the Schumpeterian view on innovation. In this inductive, exploratory study, qualitative data was collected from semi-structured interviews with multiple informants in three for-profit SEVs in India. The empirical evidence showed that social innovations are distinct in that they develop under resource constraints. In particular, access to financial and human capital was found to be lacking. The findings indicate that social capital was a key enabler of social innovations, and SEVs leveraged their social capital extensively to overcome resource constraints in their environments. Further, the entrepreneurial role of introducing a novel resource (capital) combination was performed by more collectivist forms of entrepreneurship. This included: collaborative entrepreneurship where an individual entrepreneur collaborated with a network of supporters; team entrepreneurship involving a team of social entrepreneurs; and collective entrepreneurship in a cooperative venture. This research underlines the complexity of the social innovation process and highlights the innovative use of capital forms in overcoming resource constraints. Suggestions for social entrepreneurs and practitioners on how to manage social innovations are implicit in its finding

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# **Chapter 1: Introduction**

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## **1.1 Introduction**

This chapter presents the overall introduction to this doctoral study including its background, aims and structure. This chapter is structured as follows. In the first section, the background to the study is provided to introduce the reader to the thesis and provide a rationale for this research. Then, the study's aim and objectives are presented. This is followed by a brief introduction to the author that highlights her motivation for this research. Finally, a schematic outline of the thesis presents chapter contents to better guide the reader.

## **1.2 Background to the study**

In the new millennia, governments, practitioners and academics around the world are seeking ways to foster social entrepreneurship as a means of achieving economic development (Chell et al., 2010; Zahra et al., 2009; Anderson et al., 2006; Young, 2006; Wallace, 1999). Social entrepreneurship is broadly defined as entrepreneurial activity with an embedded social purpose (Austin et al., 2006) and innovation is identified as its defining characteristic (Witkamp et al., 2011; Tapsell & Woods, 2010). Henceforth, in this thesis, the term social innovation is used to refer to innovation within the context of social entrepreneurship.

Social innovations are desirable in both developed and developing economies as they create employment and new industries, introduce new business models and allocate resources to societal problems (Santos, 2010). For instance, the micro-finance package of the Grameen Bank enabled millions of poor women in Bangladesh to set up micro-enterprises (Zahra et al., 2009). This model was replicated successfully, leading to the emergence of a global micro-finance industry (Bornstein, 1996; Hulme, 1990). In the developed world, social innovations are seen as a means to promote social inclusion of marginalised groups (Ferguson, 2007; Turner & Martin, 2005; Vidal, 2005). For instance, the 'Big Society' agenda of the newly-elected coalition government in the UK aims to promote community-based enterprises. Further, as per the Global Entrepreneurship Monitor's 2005 survey of the UK, an estimated 1.2 million people in the UK (or 3.2 per cent of the working population) are social entrepreneurs (Harding, 2006). Some regard

social enterprises as the new economic engine (Harding, 2004). Despite wide recognition of the impact of social innovations on the economic system, research on innovative, social entrepreneurial ventures (SEVs) is still in its infancy.

In the last two decades, social entrepreneurship research has come into prominence. However, only limited empirical research has been conducted into social innovations. In recent reviews, scholars have called for further research in this area (Gras et al., 2011; Chell et al., 2010). There is limited evidence of an interdisciplinary approach to investigating social innovations in extant literature. For instance, the author reviewed 170 articles on social entrepreneurship published in peer reviewed journals between the years 2000 and 2011. This review revealed that only nine studies had examined social innovation in detail. This is surprising given the fact that innovation was frequently mentioned as the defining characteristic of social entrepreneurs and social entrepreneurship (Shaw & Carter, 2007; Mulgan et al., 2007; Austin et al., 2006). The rest of this section presents a critical review of the existing empirical studies on social innovation identified by the author from an extensive literature search.

In the literature reviewed, the author found that the majority of conceptual papers in the social entrepreneurship field highlight innovation as a key feature of social entrepreneurial initiatives. Empirical research provides some support for this assertion. For instance, in an empirical study using six cases of social entrepreneurship in the UK, Spear (2006) reported incidences of innovative activity in all cases studied. Similarly, Weerwardana & Sullivan Mort (2006) used grounded theory to examine nine cases of Australian non-profit organisations and concluded that innovation was a key characteristic of social enterprises.

In another empirical study, Alvord et al. (2004) investigated seven cases of successful social entrepreneurship using multiple case studies from across the globe largely based on secondary data. Their study identified three forms of social innovation: building local capacity, disseminating a package and building a movement. In an empirical study, Weerwardana & Mort (2001) investigated a single case of an aged care organisation in Australia and McDonald (2007) used mixed methods to investigate innovations in non-profit hospitals in the USA. Both these studies concluded that the social mission of a non-profit SEV played a significant role in developing innovations.

In recent special issues on social innovation, two empirical studies were included. The first, by Bridgstock et al. (2010), used mixed methods to examine the linkages between diversity management, innovation and high performance in social enterprises. The second empirical paper, by Tapsell & Woods (2010), used complexity theory and neo-Schumpeterian view on innovation to examine entrepreneurial activity in the Maori tribes of New Zealand. This study concluded that historical and cultural contexts in which innovation occurs are an important consideration for understanding both social and economic entrepreneurship. Finally, in a recently published empirical study, Witkamp et al. (2011) investigated the applicability of a strategic tool-Strategic niche management (SNM) in investigating social innovations. Their study concluded that SNM could be used to analyse a radical social innovation with some modifications for the initiation of research and management for such innovations.

In general, the nine empirical studies mentioned in the preceding paragraphs have explored social innovations within the context of social entrepreneurship. However, with the exception of Tapsell & Woods (2010) and Witkamp et al. (2011), who used strategic niche management, the majority of studies lacked reference to theoretical constructs from existing innovation literature. Further, an interdisciplinary approach to investigating social innovation that could integrate findings from social innovation, social entrepreneurship and innovation fields was only present to a limited extent. These exploratory studies, however, do not answer the following questions on the nature of social innovations raised in recent reviews of the social entrepreneurship field such as:

How are innovative solutions to social problems developed? (Chell et al., 2010)

Who are the key actors in a social innovation? (Mair & Marti, 2006)

What contextual factors influence social innovation? (Austin et al., 2006)

How are social innovations distinct from business innovations? (Pol & Vile, 2009)

The aim of this doctoral study is to address these gaps by empirically investigating social innovations in three cases of for-profit SEVs. For-profit SEVs are ventures that define their mission as having a double or triple bottom line integrating economic, social and environmental goals (Dorado, 2006). Using this approach, this study intends to develop new insights into the social innovation process.

### **1.3 Research Aim and Objectives**

The overall aim is to increase the understanding of the social innovation process with a focus on the resource combinations used in the process. The two research questions formulated for this study are: what are the phases of the social innovation process and how are various forms of capital combined in the innovation process to overcome resource constraints? This framework aims to address one of the gaps identified by the author in the literature review.

Through case study analysis of social innovations in three social entrepreneurial ventures in India, this research specifically pursues the following research objectives:

1. To critically review the innovation literature in order to develop an integrated framework that can be used to explain resource combinations in the innovation process;
2. To critically review the social entrepreneurship literature in order to identify the distinctive features of social innovation and modify the innovation framework developed for objective one;
3. To use the developed social innovation framework in the empirical investigation of three cases of social innovation in three for-profit social entrepreneurial ventures (SEVs).
4. To develop new insights into the social innovation process such as its contextual factors, constituent phases and to examine how various forms of capital are exploited in the social innovation process to overcome resource constraints.

#### **Rationale for studying social innovation within for-profit SEVs**

There are several reasons for exploring social innovations within for-profit, social entrepreneurial ventures. First, for-profit SEVs represent a new business model (an innovation) that integrates social and economic goals (Dorado, 2006; Witkamp et al., 2011; Santos, 2010). Second, the explicit social mission of an SEV (Austin et al., 2006) helps to distinguish it from a commercial entrepreneurial venture. Third, the 'for-profit' organisational format implies that, like entrepreneurial ventures, SEVs need to innovate for sustainability (Dorado, 2006; Phillips, 2006). This allows theoretical constructs from innovation literature (primarily based on commercial enterprises with profit motives) to be applied for investigating social innovations. Finally, unlike non-profit SEVs, for-profits do not attract regulatory restrictions, such as the non-distribution of profits, which restrict the former from mobilising financial and human resources (Austin et al., 2006; Dart, 2004; Dees, 1998).

This study is also limited to a single country, India, which is associated with high levels of social entrepreneurial activity (Mair & Marti, 2006). In contrast, existing empirical research in social innovations is limited to Anglo Saxon countries (Chell et al., 2010; Kerlin, 2006). Further details on selection criteria are discussed in Chapter 4.

For this exploratory study, the interpretive approach was selected as it allows the researcher to get close to the participants, interpret their realities and generate an understanding of the contemporary practices of organisations engaged in social entrepreneurship (Weber, 2004; Klein & Myers, 1999). Further, scholars like Wolfe (1994) argue that an interpretive orientation holds great promise as innovation is full of uncertainties and intricacies that can best be understood from the point of view of the actors involved. Similarly, Chell (2007) calls for an interpretive approach to understanding the complex phenomenon of social entrepreneurship. In line with the interpretive approach, data was collected by capturing views and experiences of the multiple informants through semi-structured interviews. In addition, observations were made before and after the interviews to gain insights into the research settings (the context). This approach is in contrast to previous research, which has explored social innovations using qualitative methods (secondary data from multiple cases in Alvord et al., 2004) or mixed methods (McDonald, 2007; Tapsell & Woods, 2010) to gather views of only social entrepreneurs or managers. In this research, experiences of multiple informants coupled with the diversity of case studies offered the depth and breadth of insights into the complex process of social innovation. In addition, this study has used a multidisciplinary approach to investigating innovation. Among others, these disciplines comprise sociology, economics, organisational studies and entrepreneurship studies.

#### **1.4 Research origins: author's background**

The purpose of this subsection is to introduce the reader to the author's background. The role of the researcher is recognised in interpretive research where the key assumptions are that social reality is locally and specifically constructed by the individual actors through their actions and social interaction (Guba & Lincoln, 1994; Orlikowski & Baroudi, 1991). Further, it is assumed that the researcher becomes the vehicle through which the reality is revealed (Cavana et al., 2001; Newman, 1997; Walsham, 1995a; 1995b). By recognising the role of the researcher, interpretive research addresses the inter-subjective nature of social reality.

The author of this thesis has postgraduate qualifications in economics, business finance and teaching in higher education. For over five years, the author has gained teaching experience as Lecturer in two University Business Schools in the United Kingdom of which three years involved teaching entrepreneurship modules to undergraduates. As part of the teaching responsibilities, the author was involved in the development of curriculum and teaching materials for undergraduate level entrepreneurship modules. It was during that teaching experience, while conducting reviews on entrepreneurship literature, that the impetus for this research originated. The author realised that the practice of social entrepreneurship with its embedded social purpose challenged the economics of commercial entrepreneurship with its core assumption that profits drive entrepreneurial activity. This realisation, coupled with the fact that the business media was regularly featuring interviews with social entrepreneurs and speeches by politicians, each referring to social entrepreneurship as a more benign form of capitalism, fuelled the initial interest. As a result, the author became fascinated with the topic of social entrepreneurship. Further exploration of the social entrepreneurship literature revealed that as this was a nascent field of research it provided an opportunity to make an original contribution to knowledge.

## **1.5 Contributions to knowledge**

The aim of this thesis is to contribute to the theory and practice of social entrepreneurship by exploring the social innovation process within the context of social entrepreneurship. The contributions of this research are detailed in Chapter 9 (section 9.1) and are briefly highlighted in this section.

There are five main contributions of this research. First, a new capital-based framework on the social innovation process (Figure 3.1) is developed and empirically validated in three cases of for-profit SEVs in India. This framework depicts how social entrepreneurial ventures initiate, develop and scale a new solution to societal problems. Such a framework is lacking in extant literature. Second, this study identifies the distinctiveness of the social innovation process. Empirical evidence is provided to support previous claims that social innovations develop in resource-constrained environments (Bornstein, 2003; Austin et al., 2006). In particular, financial capital was found to be lacking in the initiation and development phases of the social innovation process. Third, this study provides empirical evidence that social entrepreneurs exemplify the Schumpeterian entrepreneur as an innovator as claimed by Zahra et al. (2009) and Tapsell & Woods (2010). Fourth, this study adopts an interpretive approach to investigating social

innovations that allowed for gathering experiences of multiple informants involved in the social innovation process. The accounts of social entrepreneurs, their employees and target beneficiaries helped to provide a detailed description of the historical and social context of the social innovation as emphasised in previous research by Tapsell & Woods (2010). Finally, this exploratory research has investigated social innovations in a developing country context: India. In previous research, India has been identified as a country with high levels of social entrepreneurial activity (Mair & Marti, 2006; Nicholls & Cho, 2006). This is an important contribution as the majority of existing empirical research has been conducted in Anglo Saxon countries such as the USA (McDonald, 2007); New Zealand (Tapsell & Woods, 2010); Australia (Weerwardana & Sullivan Mort, 2006) or the UK (Bridgstock et al., 2010).

In terms of research dissemination, the preliminary findings from this study have been presented at the annual conferences of the British Academy of Management in 2009; the Institute for Small Business & Entrepreneurship in 2010; and the Social Innovation Research Conference in 2010 held at Said Business School, Oxford University. An article by the author that is loosely based on case study 2 has been accepted for publication in a special issue of the International Journal of Technology Management and Sustainable Development (IJTMSD) for 2011 publication. Two more journal articles from this thesis are being developed in collaboration with senior academics for publications in suitable journals on entrepreneurship and/or innovation.

## **1.6 Structure of the thesis**

As illustrated in Figure 1.1, this thesis is divided into three main parts. The first part provides the overall basis of the research and consists of Chapters 1, 2, 3 and 4. This introductory chapter provides an overview of the research including its background, aims and the adopted approach. In addition, the section on the author's background outlines the personal motivation for this research.

**Chapter 2** presents a review of the innovation literature and introduces the Schumpeterian view in innovation theory. In addition, the role of the entrepreneur in innovation is identified. This chapter also introduces three capital theories used to explain innovation: financial, human and social capital and identifies the role of each form of capital in innovation. The chapter concludes with the development of a holistic, capital-based framework for innovation that can be used to explain innovation within the context of commercial entrepreneurship. This framework is used in

Chapter 3 in reviewing social innovation literature. Chapters 2 and 3 set the broad framework for the empirical study highlighting the gaps in the literature.

**Chapter 3** provides a review of social innovation research within the context of social entrepreneurial ventures. First, the concepts of social entrepreneurship and social innovation are defined and a historical overview of research on social innovations is presented. Then, the capital theories on innovation introduced in Chapter 2 are used to identify the distinctiveness of social innovations. Following this, the innovation framework developed in Chapter 2 is modified to incorporate the distinctive characteristics of social innovation. This framework on social innovation is later used in the empirical part of the thesis for data collection and analysis.

**Chapter 4** comprises the methodology and research design of this study. This includes a discussion on the ontology and epistemology selected for this study as well as their impact on the quality of this research. Furthermore, the role of the researcher is critically evaluated. Finally, the appropriateness of diverse methods of data collection and analyses is assessed in relation to this study.

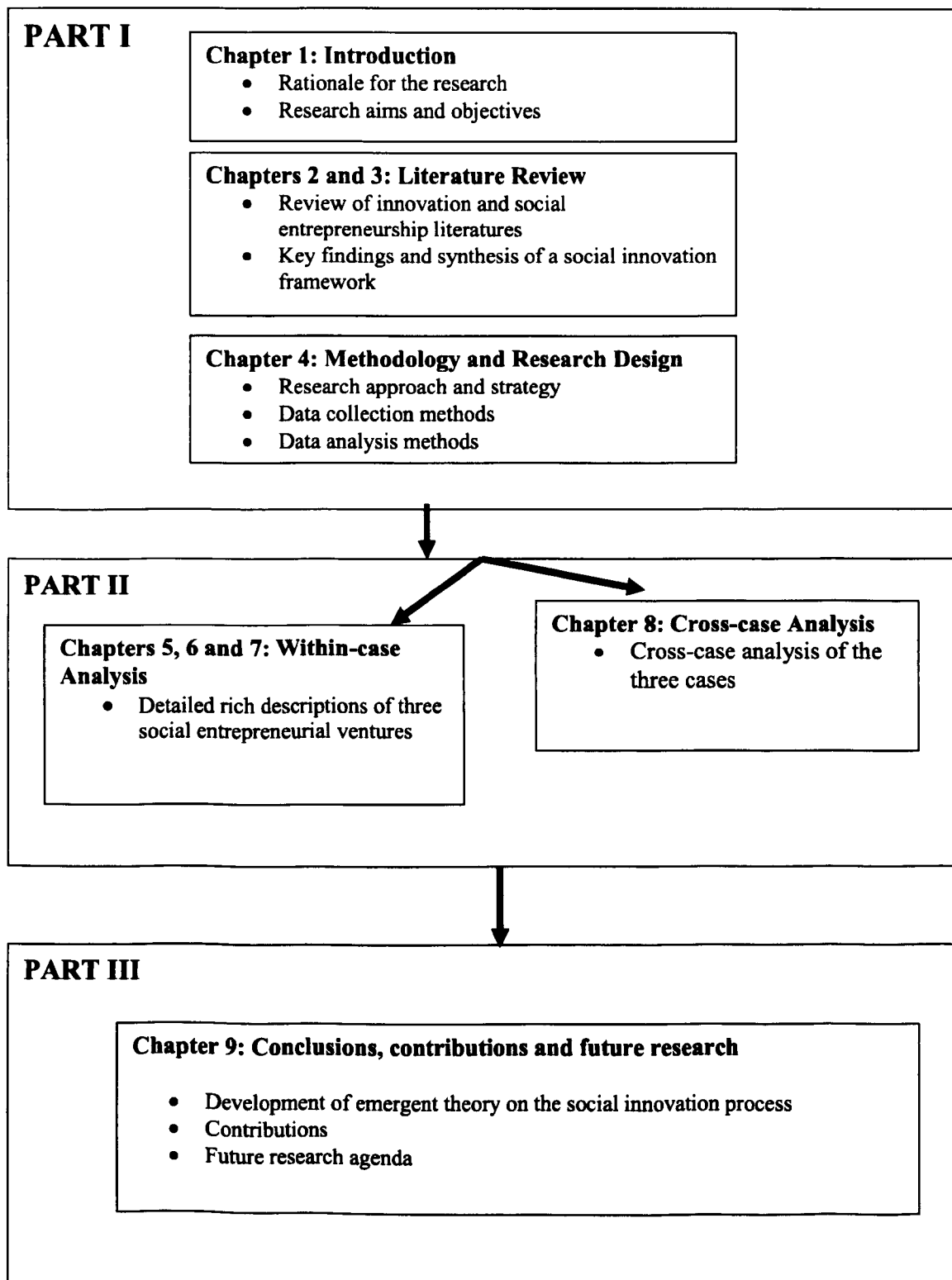
The second part of the thesis presents the empirical part of the study and consists of **Chapters 5, 6, and 7**. These chapters present rich descriptions of the three selected case organisations and include background information and case descriptions based on within-case analysis of each social entrepreneurial venture along the core themes identified in the social innovation framework developed in Chapter 3.

**Chapter 8** presents the cross-case analysis of the three case studies. This chapter discusses the common patterns from within-case studies presented in Chapters 5, 6, and 7 and evaluates them in view of the research questions. Answers will be provided to the research questions of how innovation happens in for-profit SEVs and what forms of capital are deployed in the social innovation process.

**Chapter 9** forms the third part of the thesis and presents the discussions and conclusions of this study. The original contributions of this thesis are highlighted along with the implications for practitioners and a future agenda for the author.



Figure 1.1 Structure of the thesis



## **Chapter 2: Innovation in Entrepreneurial Ventures**

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### **2.1 Introduction**

This chapter provides a review of literature within the entrepreneur paradigm (Sundbo, 1997) in innovation theory in order to identify its key themes. The entrepreneur paradigm can be traced back to Schumpeter's seminal work in which he first identified the entrepreneur as the innovator in capitalist economies and laid the foundations of innovation theory. Researchers in economics, organisational theory and entrepreneurship working within the entrepreneur paradigm have expanded on Schumpeter's work to offer alternative interpretations of how innovation happens in entrepreneurial ventures<sup>1</sup>. Scholars claim that as social entrepreneurs introduce social innovations, they exemplify the Schumpeterian entrepreneur (see Zahra et al., 2009, for a typology of social entrepreneurs that builds on Schumpeter's works). Conceding with these claims, in this chapter, a review of literature within the entrepreneur paradigm is conducted to explain innovation in entrepreneurial ventures.

In the first section, the role of innovation and entrepreneurship in economic development is presented to justify the relevance of the entrepreneur paradigm in addressing this study's research questions. Then, a historical overview of the entrepreneur paradigm is provided that includes Schumpeterian and post-Schumpeterian thinking. This section ends with a summary of its key themes. The third section describes the concept of resource combination and introduces the three capital theories on innovation. Finally, a holistic, capital-based framework for innovation is developed based on the preceding literature review. In the next chapter, this framework will be modified to incorporate the distinctive characteristics of social innovation.

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Entrepreneurial ventures<sup>1</sup> high-growth ventures in commercial entrepreneurship

## 2.2 Innovation, entrepreneurship and economic development

It is now widely accepted that innovation contributes to economic development (Carree & Thurik, 2010; Van de Ven, 1986) and that entrepreneurship is one of the main drivers of innovation (McGrath, 1996; Stevenson & Jarillo, 1990). Most academics agree that it was Schumpeter (1934) who first suggested that innovations introduced by entrepreneurial efforts led to economic development (Fagerberg et al., 2005). Schumpeter's notion of innovation as a 'creative response' first appeared in the *Theory of Economic Development* (1934), referred to as Mark I, and later in *Capitalism, Socialism and Democracy* (1942), often referred to as Mark II. His pioneering work laid the very foundations of contemporary innovation and entrepreneurship theory.

Following Schumpeter, a number of authors have highlighted the contributions of innovation to economic development. For instance, economic historians have attributed the rapid growth of the US economy in the 19<sup>th</sup> and 20<sup>th</sup> centuries to industrial expansion achieved through technological innovations (Chandler, 1992; Mowery & Rosenberg, 1998; Hounshell, 1996). In the first two decades following the Second World War, most Western market economies witnessed unprecedented economic growth through rapid industrial expansion (Rothwell, 1994). During this period, innovation was the domain of large corporations.

In recent innovation theory, there is growing recognition that small, entrepreneurial ventures also develop and commercialise innovations, thereby contributing to economic growth (Van Praag & Versloot, 2008; Acs, 2006; Tidd et al., 2005). For instance, the rapid growth of Western economies in the past two decades has been attributed to the Information Technology (IT) revolution spurred by the emergence of innovative, entrepreneurial ventures like Microsoft, Intel and Google (Baumol & Strom, 2007). The emergence of entrepreneurial ventures has refuelled interest in the Schumpeterian theory of entrepreneurial innovation. This thesis largely draws insights from this body of innovation literature that is inspired by Schumpeterian thinking.

In summary, there is much consensus on the profound implications of innovation on the development of economies. However, alternative perspectives exist on what constitutes innovation as researchers have used a variety of approaches to investigate innovation in different contexts. In the next section, the alternative perspectives on innovation are briefly explained to reflect the diversity of views on innovation.

### 2.2.1 Defining innovation: alternative perspectives

Innovation research has originated in many disciplines including management, economics, sociology and technology (Gopalkrishnan & Damanpour, 1997). Within these disciplines, researchers have conceptualised and defined innovation from alternative perspectives. Reflecting this diversity, a recent review of innovation definitions by Baregheh et al. (2009) identified sixty definitions of innovation. Their study found that the term ‘new’ occurs in all innovation definitions at least once. Hence, in its broadest sense, an innovation refers to something new or novel. However, narrower definitions of innovation vary depending on the chosen perspective of the researcher conducting an innovation study. Table 2.1 summarises the alternative perspectives on innovation.

Schumpeter (1934) defined innovation from an entrepreneurial perspective as the novel combination of resources. Researchers refer to such innovations as entrepreneurial innovation (Grossman, 2009). In this thesis, unless otherwise mentioned, innovation is referred to as entrepreneurial innovation.

**Table 2.1 Innovation definitions in different perspectives**

| Definition   | Perspective/Author   |
|--|--|
| A social process involving the novel combination of resources brought about by the vision of the entrepreneur  | Entrepreneurial perspective<br>Schumpeter (1934)             |
| The development and use of new ideas where new idea refers to a new product, service, process, market, organisational structure or administrative system | Organisational perspective<br>Damanpour & Wischnevsky (2006) |
| New knowledge incorporated in products, processes and services   | Knowledge perspective<br>Afuah (1998)                        |
| New technology or combination of technologies that offer worthwhile benefits   | Technology perspective<br>McDermott & O'Connor (2002)        |

From an organisational perspective, innovation is the “development and use of new ideas where new idea refers to a new product, service, process, market, organizational structure or administrative system” (Damanpour & Wichnevsky, 2006, p. 271). Some researchers refer to such innovations as organisational innovations (Wolfe, 1994).

From a knowledge perspective, Afuah (1998) refers to innovation as the new knowledge, incorporated in products, processes and services. Some researchers refer to such innovations as knowledge-based innovations (Landry et al., 2002). From a technology perspective, innovation is defined as a new technology or combination of technologies that offer worthwhile benefits (McDermott & O'Connor, 2002). Researchers often refer to such innovations as technological innovations (Dosi, 1982).

This study explores innovation within the context of social entrepreneurship wherein innovation is identified as a defining characteristic of social entrepreneurship (Bridgstock et al., 2010; Tapsell & Woods, 2010). Thus, the entrepreneurial perspective is adopted in this research as it emphasises the role of entrepreneurs in innovations.

At this point, it is imperative to point out two key aspects of innovation that can help one identify an innovation. First, novelty is considered relative to the unit of adoption (in contrast to absolute novelty/new-to-the-world innovations). This means that an innovation must be new to the unit of adoption, which could be any social entity such as an entrepreneurial venture (Anderson & King, 1993; King & Anderson, 2002). Second, innovation definitions imply that such novelty must have some pragmatic application. For instance, innovation within an organisation could result in new products or services being offered to customers (Damanpour & Wichnevsky, 2006).

From the above discussion, we can summarise that new ideas that have been successfully put into practice constitute an innovation. This basic criterion is used throughout this thesis to refer to innovation at a conceptual level and to identify an innovation in the empirical part of the study.

### **2.2.2 Paradigms in innovation theory**

In using different perspectives to examine innovation, researchers have developed fundamentally different theories on innovation. Sundbo (1997) argues that as these interpretations provide different answers to the fundamental innovation question of how innovations develop, they represent different paradigms. Each paradigm has specific models of management and organisation of the innovation process.

First, the *technology-economic paradigm* emphasises “technological development as the core innovation process” (Sundbo, 1997, p. 435). Here, the innovation process is organised in the research and development department of an organisation. The majority of innovation research

falls within this paradigm (Garcia & Calantone, 2002; Evangelista, 2000). Research in this paradigm has provided insights into technological innovations (specifically, product and process innovations) and several innovation models to illustrate the innovation process and its constituent phases. In the past decade, an emergent theme in this paradigm is open innovation. In the open innovation model, firms use external sources (from their environment) in combination with internally generated ideas for developing technological innovations (Chesbrough, 2003).

The second paradigm identified by Sundbo (1997) is the *entrepreneur paradigm*. Here, the entrepreneurial act is regarded as the core innovation process (Zhao, 2005; Schumpeter, 1934). Within this paradigm, entrepreneurship is seen as a creative act, creating value for the individual entrepreneur as well as the wider community based on opportunity exploitation (Johnson, 2001). Besides new venture creation, recent theory emphasises the role of entrepreneurship in innovation within existing organisations, or what is referred to as intrapreneurship (McFadzean et al., 2005).

Sundbo (1997) argues that the innovation process in the case of entrepreneurship (however defined) is not easily manageable. Research in this paradigm has developed our understanding of the role of new venture creation and corporate entrepreneurship in innovation. Some authors use the term entrepreneurial innovation to refer to entrepreneur-led innovation (see, for example, Grossmann, 2009).

Finally, the *strategic paradigm*, as mentioned in Sundbo (1997), suggests that innovations are strategically determined in organisations (see for example: Porter, 1990; Rumelt et al., 1994). Within this paradigm, innovations are largely market-driven and hence formulated within a strategic framework. This thesis explores innovations within the context of social entrepreneurship. Scholars argue that such innovations have an embedded social purpose (Pol & Ville, 2009). As social innovations are not developed with aims to create strategic advantage, literature from the strategic paradigm is largely excluded from the literature reviewed in this chapter.

In this thesis, unless otherwise mentioned, the focus is largely on entrepreneurial innovation. In the following section the literature exploring the conceptual relationship between entrepreneurship and innovation is reviewed. This literature stems from various disciplines such as economics, technology management, organisational theory and entrepreneurship.

## **2.3 Historical overview: entrepreneur paradigm in innovation**

As mentioned earlier, the entrepreneur paradigm in innovation can be eventually traced back to Schumpeter's seminal work. Historically, we can distinguish two phases in such research: Schumpeterian and post-Schumpeterian and these are detailed next.

### **2.3.1 Schumpeterian phase: innovation as a resource combination**

Following a review of Schumpeter's work (Mark I and II) and their interpretations by contemporary economists, the author identified seven key themes of the Schumpeterian view on entrepreneurial innovation. These themes are explained in the following and summarised in Table 2.2.

#### **1. Innovation: introduction of new resource combinations**

Schumpeter described innovation in his seminal work as:

*"...a process involving new combinations of resources by an entrepreneur resulting in the introduction of a new product, new process, new ways of organization, new market and conquest of a new input source."*  
(Schumpeter, 1934, p. 65)

From the above, we can identify three characteristics of innovation. First, innovation is a process involving new combinations of resources. Second, the combinatory activities are performed by an entrepreneur. Third, the innovation process results in the introduction of new products (or services), new processes, new markets (discovery of new markets), new ways of organising and new inputs, which represent five sources or types of innovation.

In this thesis, Schumpeter's definition is adopted as the working definition of innovation as it is broad enough to cover business as well as social innovations (Pol & Ville, 2009). Further, this definition highlights the role of the entrepreneur in innovation (Mathews, 2002) and enables the innovation process to be investigated by identifying different resource combinations.

#### **2. Five sources/types of innovation**

Schumpeter identified five sources of innovation in the *Theory of Economic Development* (1934). The first type of innovation involves the introduction of a new product (or a quality of product). This is referred to in contemporary innovation literature as product innovation (Gopalakrishnan & Damanpour, 1997). Second, process innovation involves the introduction of a new method of production (Wolfe, 1994). Third, market innovations involve the opening of a new market and, fourth, input innovation involves the conquest of a new source of supply of raw material

(Schumpeter, 1934). Finally, the fifth type of innovation involves the carrying out of a new organisation of industry or what we now refer to as organisational innovation (Pol & Ville, 2009).

**Table 2.2 Key themes of the Schumpeterian approach**

*Source:* Adapted from Schumpeter (1934; 1942).

**3. Entrepreneur: one who introduces a new resource combination**

The entrepreneur, in Schumpeter's view, can be identified as an individual or a team who introduces new combinations (Endres & Woods, 2010). Schumpeter refers to the entrepreneur as "bearer of the mechanism of change" (Schumpeter, 1934, p. 61). This is because the introduction of a new resource combination by an innovating entrepreneur attracts other imitator entrepreneurs who then reproduce such combinations through imitation (Mathews, 2002). This innovation-imitation cycle is described by Schumpeter as:

*"The appearance of one or a few entrepreneurs facilitates the appearance of others, and these bring about the appearance of ever increasing numbers"*

(Schumpeter, 1934, p. 228)



In his early work, Schumpeter stresses the role of the individual entrepreneur. He elaborates that these are highly motivated individuals who overcome social resistance to change but, if successful, benefit society with greater economic growth (Frank, 1998). Innovation researchers following these views follow an entrepreneurial approach to conceptualising innovation. These views of Schumpeter have also laid the foundation of entrepreneurship theory.

In his later work, Schumpeter describes innovation in large corporations. He argues that in large corporations, the entrepreneur is not necessarily an independent economic agent but can also be an employee of a large company acting entrepreneurially (See Schumpeter, 1939, p. 440; 1942, pp 74-75). This emphasis is reflected in this quote:

*"Every social environment has its own ways of filling the entrepreneurial function.... Again the entrepreneurial function may be and often is filled cooperatively. With the development of the largest-scale corporations this evidently becomes of major importance: aptitudes that no single individual combines can thus be built into a corporate personality"*

(Schumpeter, 1949, pp 260-261)

Freeman (1982) explains that this shift in emphasis reflects the historical developments of that period. During the rapid industrial expansion following the two World Wars, the dichotomy between ownership and management in large, Western corporations meant that the entrepreneurial function was largely performed by the executive function of management. Researchers following these observations of Schumpeter use a technological approach to conceptualising innovation and regard innovation as the outcome of routines in large organisations (Dosi, 1982).

#### **4. Innovation is a disruptive force**

Schumpeter views innovation as a disruptive force that creates disequilibrium in the economy, altering the existing market structure and breaking away from existing practices (Schumpeter, 1934). Each innovation is followed by imitations resulting in a perpetual cycle of innovation-imitation-innovation in capitalist economies. Thus, in Schumpeter's view, economic change can be seen as a punctuated pattern of economic development with altering periods of prosperity and depression (Freeman, 1982). Researchers like Freeman who elaborated on these ideas of Schumpeter developed the systems approach to innovation.

## **5. Innovations create value for the innovator and society**

By introducing new combinations, the innovating entrepreneur earns short-term profits until other imitator entrepreneurs reproduce these combinations (Schumpeter, 1934). Innovations always have some value spill-over, as some value is passed on to imitator entrepreneurs and society in general. In time, as profits erode, the innovator entrepreneur renews his quest for new resource combinations. Thus, the Schumpeterian entrepreneur is not complacent but searches continuously for new innovation opportunities (Endres & Woods, 2010). This quest fuels the entrepreneurial spirit and is the very foundation of entrepreneurial innovation.

## **6. Entrepreneurs are creative**

Schumpeter (1934) stresses that the creative response of the entrepreneur is something that is outside of the range of existing practice as expressed in this quote:

*“To produce means to combine materials and forces within our reach... To produce other things... means to combine these materials and forces differently”*

(Schumpeter, 1934, p. 65)

Resource combination is a creative act since the entrepreneur needs to discover new uses and estimate the productive potential of the resources being combined. In the initial stages, the productivity of a resource combination is fuzzy at best.

The significance of this form of creativity is perhaps best explained by Penrose (1959) in her seminal work:

*“The services yielded by resources are a function of the way in which they are used – exactly the same resources when used for different purposes or in different ways and in combination with other amounts of resources provide a different service or set of services”*

(Penrose, 1959, p. 25)

Moreover, the outcomes from the introduction of a resource combination are unpredictable and this reflects the inherent risk in any innovation (Moran & Ghoshal, 1999). Schumpeter points to the uncertain nature of innovation in his work as reflected in this quote:

*“We are dealing with a process whose every element takes considerable time in revealing its true features and ultimate effects”*

(Schumpeter, 1942, p. 83)

From the above, we can see that Schumpeter regards innovation as a more or less radical change that involves the introduction of new resource combinations. In contemporary innovation

literature, this is what is referred to as radical innovation. However, some scholars question the existence of radical innovations (Basalla, 1988). They point out that most radical innovations, such as the railways, are essentially the result of accumulation of small changes over a long period (Rosenberg, 1982). Thus, Schumpeter's view of innovation as radical change is quite restrictive as it ignores the impact of incremental changes on innovation.

## **7. Entrepreneurs have pecuniary and non-pecuniary motives**

Schumpeter (1934) also points to the economic, psychological and social attributes of successful entrepreneurs. In terms of economic motives, he suggests that "the dream or will to found a private kingdom or dynasty" for which "industrial or commercial success is still the nearest approach....possible to modern man" (p. 93). The entrepreneur's non-pecuniary motives are stated in Schumpeter's work as "the will to conquer: the impulse to fight, to prove oneself superior to others" and "the joy of creating" (ibid, p. 94). Thus, the Schumpeterian entrepreneur is both rational, that is, driven by profits, as well as irrational owing to non-pecuniary motives (Fehr & Falk, 2002). These observations are especially relevant to explain social innovations introduced by social entrepreneurs that have an embedded social purpose (Austin et al., 2006).

In summary, in his seminal work, Schumpeter emphasised the role of the individual entrepreneur in innovation. In his later work, he emphasised innovation in large corporations where the entrepreneurial function could be performed by management teams. In the 1950s, with the advent of large corporations in the USA, innovation researchers shifted their focus to innovation routines in technological innovations (Freeman, 1982). Consequently, the entrepreneur's role in the innovation process was largely ignored in innovation studies published in the period between the 1950s and the 1990s. In the nineties, the emergence of small, entrepreneurial ventures refuelled interest in Schumpeterian theory, and the entrepreneurship field was established. The following section provides an overview of research in the post-Schumpeterian phase.

### **2.3.2 Post-Schumpeterian phase: innovation as a social process**

Following Schumpeter, a number of researchers since the nineties have investigated entrepreneurial innovation (Zhao, 2005; McFadzean et al., 2005). Researchers within the entrepreneur paradigm concede that innovation is the defining characteristic of entrepreneurs and entrepreneurial ventures. Thus, within the entrepreneurial approach, it is assumed that innovation can best be described as the act of entrepreneurs, how they react to their environment or enhance their enterprises. Several themes can be identified in the contemporary entrepreneurial innovation literature. These themes are summarised in Table 2.3 and explained in the following.

## **1. Innovation in entrepreneurial ventures is a social process**

In post-Schumpeterian literature, Schumpeter's (1942) observation regarding the entrepreneurial function often being filled cooperatively finds greater emphasis. In general, scholars now describe entrepreneurial innovation as a social process involving a numbers of actors (Dimov, 2010). This argument holds true for innovation in new and well-established entrepreneurial ventures.

In the case of new entrepreneurial ventures, the entire process of new venture creation by an individual entrepreneur can be best explained in a social context (Welter, 2011). First, during the opportunity identification phase, social network contacts enable entrepreneurs to identify and exploit opportunities (Uzzi, 1999). Then, during the resource mobilisation phase, entrepreneurs raise finance and other resources from family and friends (Harding, 2000) or their network contacts (Ibarra, 1993). In essence, during the process of new venture creation, the entrepreneur needs to engage and convince a number of people to take a collective interest in his or her new venture (Burgelman & Hitt, 2007). This entrepreneurial process of collaboration is perhaps best summarised in Van de Ven's argument that "innovators who run in packs will be more successful than those who go at it alone" (2002, p. 2).

In the case of established entrepreneurial ventures, the innovation process involves contributions from several individuals across organisational departments and boundaries. In contemporary theory, this is often referred to as corporate entrepreneurship and individuals acting entrepreneurially in large organisations are called corporate entrepreneurs (Shaw et al., 2005). First, during the idea generation phase of an innovation, customers may be engaged through market research, which helps reduce uncertainty regarding the future market response of an innovation (Hippel, 2005). In addition, organisations may use externally-sourced new ideas as in open innovation models (Galbraith & McAdam, 2011). Second, in the development phase of innovation, organisations actively engage internal (organisational members) and external actors (such as suppliers). By engaging suppliers, organisations gain access to valuable resources such as information in support of their innovation (Saxenian, 1990). Further, all the organisational members across departments (not just R & D staff) are engaged in the development of the innovation. For instance, in academia, Nonaka (1990) found that the innovation process overlaps within and across departments. Finally, during the diffusion phase of the innovation, entrepreneurial ventures collaborate with actors outside the organisational boundaries such as

technical communities (Tushman & Rosenkopf, 1992) and innovation networks (Chesbrough, 2003; Schilling & Phelps, 2007).

From the above, we can see that in the post-Schumpeterian literature, innovation within new and established entrepreneurial ventures is seen as a complex, social process involving a number of individuals both within and outside an organisation.

## **2. Entrepreneurial innovation is both disruptive & incremental**

Academics include both radical and incremental types of innovation in entrepreneurial innovation. For instance McFadzean et al. (2005) and Shaw et al. (2005) describe the entrepreneur's role on a continuum ranging from an innovator with a new idea to one who applies new ideas through creative imitation. Similarly, Zahra et al. (2009) identify three types of social entrepreneurs in their study: social bricoleurs, social constructionists and social engineers. They elaborate that the social bricoleurs perceive and act upon opportunities to address a local social need while the social constructionists build and operate alternative structures to address social needs arising from market failures. Finally, social engineers create new and more effective social systems to meet social needs, which replace the existing social structures. Thus in post-Schumpeterian theory, entrepreneurs are seen as playing a significant role in the identification and exploitation of innovation opportunities including the application of new innovations (Dimov, 2010).

## **3. Autonomy drives entrepreneurial innovation**

In post-Schumpeterian literature, researchers emphasise that autonomy arising from open organisational structures and cultures of entrepreneurial ventures encourages individuals to be creative and innovative. For instance, a number of studies identify open communication as a defining characteristic of innovative, entrepreneurial ventures (Burns & Stalker, 1961). Empirical research conducted in diverse contexts supports this assertion (Martin & Terblanche 2003; Agin & Gibson, 2010). Researchers elaborate that open communication allows organisational members to participate in decision making and problem solving activities (Arad et al., 1997; Hamel, 2000). Further, open-structures encourage authentic voices from the grassroots levels, such as young people and newcomers (Kanter, 2006), thereby ensuring a wider participation of individuals within the innovation process. Empirical studies by Rosenkopf et al. (2001) and Damanpour and Scheider (2009) confirm these assertions. Thus, open organisational structures and cultures encourage autonomy, thereby facilitating innovation.

**Table 2.3 Key themes: post-Schumpeterian approach**

| Key theme   | Major contributors   |
|---|--|
| 1. Innovation in new and established entrepreneurial ventures is a social process involving a host of actors.   | Dimov (2010), Harding (2000), Brush et al. (2001), Hippel (2005)                                 |
| 2. Innovation can be disruptive (radical) or incremental (small changes/adaptations).   | McFadzean et al. (2005), Shaw et al. (2005), Zahra et al. (2009)                                 |
| 3. Autonomy drives innovation emphasising the role of an open organisational structure and culture.   | Burns & Stalker (1961), Martin & Terblanche (2003), Agin & Gibson (2010), Kanter (2006)          |
| 4. Entrepreneurial diversity is recognised to include founder entrepreneurs, corporate entrepreneurs, team entrepreneurship, public entrepreneurship and social entrepreneurship. | McFadzean et al. (2005), Shaw et al. (2005), Zhao (2005), Zahra et al. (2009)                    |
| 5. Innovation process consists of three temporal phases/periods: initiation, developmental and implementation.  | McFadzean et al. (2005), Shaw et al. (2005), Van de Ven & Poole (1990), Van de Ven et al. (2008) |
| 6. Internal and external social capital is considered central to innovation.  | Tsai & Ghosal (1998), Goodale et al. (2011)  |
| 7. The discovery of new user needs represents innovation opportunities and innovation involves responding to communities.   | Eisenberg (2011), Lüthje & Herstatt (2004)   |

#### **4. Entrepreneurial diversity is recognised**

Post-Schumpeterian literature on entrepreneurial innovation suggests that the entrepreneurial function of combining resources could be performed by different types of entrepreneurs. For instance, the entrepreneurial function could be performed by an individual entrepreneur such as the founder of a new venture (Dimov, 2011); corporate entrepreneurs (McFadzean et al., 2005; Shaw et al., 2005); public (Borins, 2000) or social entrepreneurs (Zahra et al., 2009). Thus, the diversity of the type of entrepreneurs is recognised in the post-Schumpeterian literature on innovation theory.

## **5. Innovation process consists of three phases**

Researchers have developed a number of models with various stages or periods to describe the innovation process (Wolfe, 1994) but only two conceptual studies have explicitly investigated the entrepreneurial innovation process. In the first study, McFadzean et al. (2005) developed a model depicting the link between corporate entrepreneurship and innovation in established entrepreneurial ventures. Similarly, Shaw et al. (2005) proposed a complex macro- and micro-model on innovation in corporate entrepreneurship. However, the models presented in both these studies have not been validated through empirical research. Further, the models focus on corporate entrepreneurship and ignore the role of innovation within new entrepreneurial ventures. Finally, these models do not consider the roles of other actors in the innovation process such as customers and suppliers.

In a large-scale empirical study called the Minnesota Innovation Research Program, conducted in the late 1980s in the USA, researchers investigated fourteen diverse innovations ranging from technical to administrative innovations (for a review of these studies see Van de Ven & Poole, 1990). These studies concluded that the innovation process consists of three temporal phases/periods: initiation, developmental and implementation, as described in Van de Ven et al. (2008). This conceptualisation resonates with the opportunities approach in entrepreneurship put forward by Shane (2003). In the initiation period, a new idea emerges. This new idea is developed in the development stage and finally gets put into practice in the implementation period. In reality, innovation is a far more chaotic process but the conceptualisation of innovation as a three-phase process is useful in investigating innovation in general and has been used to analyse a case of entrepreneurial innovation by Van de Ven et al. (2008). For these reasons, in this thesis, the conceptualisation of the innovation process as put forward in Van de Ven et al. (2008) and others such as Van de Ven & Poole (1990) is adopted.

## **6. Social capital plays a significant role in the innovation process**

In post-Schumpeterian literature, the role of social capital in the innovation process has been emphasised. As explained in theme 1, if we regard innovation as a social process involving a host of actors within and outside the organisational boundary, then social capital (or value inherent in social relationships) is a key input of innovation. For instance, in an empirical study, Tsai & Ghosal (1998) found that internal social capital (within units of an organisation) facilitates product innovation. Similarly, recent quantitative research has highlighted the role of operational staff (Goodale et al., 2011) and marketing staff (Spanjol et al., 2011) in new product development.

In essence, these studies indicate that innovation activities are widespread in organisations and not just restricted to the research and development department as assumed in technological innovations (Sundbo, 1997).

Innovation researchers have also emphasised the role of external social relationships (or external social capital) in innovation within entrepreneurial ventures. First, researchers have emphasised the role of customers in innovation. For instance, using case study analysis, Oberg (2010) categorises customers on the basis of their roles in innovations as initiators, co-producers and as inspirations for business development. In other research, Maklan et al. (2008) report that organisations are moving towards greater customer involvement and co-creation of value rather than innovation that is generated by an organisation and then tested among customers. Second, the contribution of suppliers in innovation is also recognised. For instance, Song and Thieme's (2009) large-scale empirical study investigated supplier involvement in 205 incremental and 110 radical innovations. Their findings suggest that supplier involvement in market intelligence gathering activities was positively related to success in incremental innovations but had no significant impact in the case of radical innovations. In other research, scholars have argued that organisations are increasingly collaborating for innovation. For instance, empirical research provides evidence that collaborative arrangements are common for innovation in the US computer industry (Tangpong et al., 2008) and food machinery in Europe (Petroni & Panciroli, 2002). In summary, both internal and external social capital is considered crucial for innovation.

## **7. Discovery of user needs triggers entrepreneurial innovation**

Researchers have also indicated that the discovery of user needs represents innovation opportunities for entrepreneurial ventures. For instance, organisations nowadays involve lead users in product innovation. Lead users are those whose needs and preferences lead the market and such users are known to modify products or use them in unforeseen ways to meet their needs (Eisenberg, 2011). Involvement of users in the development of new products is well documented in literature. For instance, Lüthje and Herstatt (2004) conducted empirical research on lead user involvement in new product development within leading companies like 3M and Johnson & Johnson. Similarly, Lilien et al. (2002) reported how the 3M Corporation generates new ideas for new product development through lead users. Furthermore, Alvord et al.'s (2006) study showed that social entrepreneurs find innovative solutions to needs of socially excluded communities. Thus, researchers point out that the discovery of new user needs can trigger the entrepreneurial innovation process.



## **Summary: Entrepreneurial innovation**

In this section, the Schumpeterian and post-Schumpeterian view on entrepreneurial innovation was presented. In essence, entrepreneurial innovation is viewed as a dynamic, interactive social process that involves the introduction of new resource combinations by an entrepreneurial function. Emerging research in the area of social entrepreneurship has also highlighted the role of the social entrepreneur as an innovator (Alvord et al., 2004). Scholars such as Zahra et al. (2009) and Tapsell and Woods (2010) claim that social entrepreneurs exemplify the Schumpeterian entrepreneur (Chapter 3 examines innovation in social entrepreneurial ventures). Following Wolfe's (1994) suggestion of clearly defining the innovation perspective, in this thesis, Schumpeter's definition of innovation as a novel resource combination is adopted as the working definition of innovation.

This review also found that existing models such as McFadzean et al. (2005), Shaw et al. (2005) and Van de Ven et al. (2008) do not go into detail on the concept of resource combinations within entrepreneurial innovation. Further, these models are focused on a single context such as corporate entrepreneurship. This necessitates the need to develop a new model depicting the entrepreneurial innovation process. In the next section, the concept of resource combination is elaborated with this intention.

## **2.4 Resource combination, capital and innovation**

In this thesis innovation is defined as a process of resource combination brought about by the entrepreneur (Schumpeter, 1934). It is in this context, that the terms resources and capital are introduced in this section.

### **2.4.1 The concept of resources and capital**

The concept of *resource* is widely used in economic and business literature. In general, 'resource' refers to something of value (Lin, 1982; Sewell, 1992). In an organisational context, resources are the building blocks of an organisation and are broadly classified as intangible and tangible resources (Katz & Gartner, 1988). Tangible resources include land, labour and machinery. In recent years, several intangible resources have been added to the list of organisational resources such as knowledge. The term resource is closely linked to the concept of *capital*. Sometimes the words resource and capital are used interchangeably but it is useful to treat them separately. Lin (2001, p. 1) defines *capital* as "investment of resources with expected returns in the marketplace".

He elaborates that capital is resources when the resources are invested and mobilised in pursuit of profit. In other words, it is when resources are used to create value for the organisation that they may be called capital (Narvekar & Jain, 2006). The concept of capital has been used to explain innovation in both economics and innovation literature.

The idea of what constitutes capital has been changing since Adam Smith. The concept of capital in early economic theory was essentially economical (Marx, 1849; 1865; Schumpeter, 1934). The monolithic conception of capital started changing in the sixties with some economists realising that human resources itself can be seen as capital (Becker, 1962). The concept of capital went through further expansion in the seventies and eighties, when a host of academics started actively discussing social capital (Coleman, 1988; Burt, 1992; Granovetter, 1985). Scholars argued that social capital, that is, capital captured through social relations, provides individuals with useful information and support (Cope et al., 2007) and this can be especially useful for entrepreneurs looking for opportunities to innovate (Lechner & Dowling, 2003; Chell & Baines, 2000).

Capital is a generic economic concept and all forms of capital display the following four characteristics. First, capital represents long-lived assets into which other resources can be invested, with the expectation of a future (though uncertain) flow of benefits (Adler & Kwoon, 2002). For instance, through investment in education and training an individual can enhance his income potential (Becker, 1962). Second, all forms of capital yield benefits and disutilities for individuals. For instance, solidarity resulting from close relationships (social capital) can enable an actor to access resources for innovation. However, strong solidarity may over embed the actor in the relationship and reduce the flow of new ideas resulting in parochialism and inertia (Gargiulo & Bernassi, 1999). In this situation, social capital would impede innovation. The third characteristic of capital forms is that they are appropriable, that is, they can be put to different uses or are convertible, at least to an extent. For instance, financial capital can be put to different uses, each yielding different returns, or it can be converted to human capital by investing in training. However, financial capital is the most liquid whereas social capital is the least liquid form of capital (Anheier et al., 1995; Smart, 1993). Finally, capital forms can be used as either a substitute or can complement each other. For instance, as a substitute, actors can sometimes compensate for a lack of financial or human capital by superior connections (Adler & Kwoon, 2002). Further, social capital can improve the efficiency of financial capital by reducing transaction costs for an individual (Lazerson, 1995).

Adapting from Bourdieu (1996) and others (Becker, 1962; Burt, 1992), capital can be conceptualised as human, social and financial. These capitals are fungible to an extent, that is it is often possible to convert one form of capital to another, but it can be useful to see them as distinct from one another and understand their roles in the innovation process. The rest of the section examines the role of each of these forms of capital in innovation.

### **2.4.2 Role of financial capital in innovation**

The introduction of an innovation requires financial capital (Harding, 2000; Katz & Gartner, 1988). In general, financial capital has both direct and indirect effects on innovation. Specifically, technological innovations require a greater investment of financial capital due to huge research and development costs (Cooper et al., 1994). For instance, empirical research has shown that the dramatic R & D boom in the USA in the nineties was due to greater availability of equity financing for new, high technology ventures (Brown et al., 2009).

Scholars also point out that the availability of financial capital influences the access to other forms of capital. For instance, in the case of technological innovations, financial incentives can help organisations recruit scientists with high levels of human capital (Hall & Lerner, 2010). Sources of finance for innovation include the entrepreneur's savings (in new ventures), cash flows (in established firms), equity-based financing (like venture capital) and debt-based capital (like bank loans). However, economists have long held the view that innovative activities are difficult to finance in a competitive marketplace (Nelson, 1959; Schumpeter, 1942). This is because financial capital is already engaged in existing 'resource combinations' and detaching it for new resource combinations is challenging given the uncertainty associated with innovations (Schumpeter, 1934). The rest of this section examines why financing innovations is a challenge for both new ventures and established entrepreneurial ventures.

#### **2.4.2.1 Financing innovation in new ventures**

Innovation research suggests that new ventures find it difficult to finance innovations. For instance, empirical research conducted on new technology-based service firms found that they were unable to raise external finance (Dahlstrand & Cetindamar, 2000). There are several reasons why this may be so. First, innovations are inherently risky and private or institutional investors would be reluctant to provide risk-capital for innovation except on restrictive terms (Boekholt, 2009). This is because the success of a new technology or the market response of an innovation is highly uncertain (Dahlstrand & Cetindamar, 2000). Second, in the case of technology ventures, the main assets are intangible (scientific knowledge) and as this cannot be used as collateral,

commercial banks would refrain from providing loans (Ferrary & Granovetter, 2009). Third, in the R & D setting, the *asymmetric information* problem means that an inventor (or innovator) frequently has better information about the likelihood of success and the nature of the contemplated innovation than the potential investors. This makes it difficult for investors to distinguish between innovation projects (Leland & Pyle, 1977). Fuller disclosure by the innovator could reduce this information asymmetry but this enhances the risk of imitation (Bhattacharya & Ritter, 1983; Anton & Yao, 2002). In general, most entrepreneurial ventures find it difficult to access finance for innovation.

In the case of high-growth new ventures, innovation could be financed through equity-based financing in the form of venture (VC) capital. Venture capital is defined as “equity or equity-linked investments in young, privately held companies, where the investor is a financial intermediary who is typically active as a director, an advisor, or even a manager of the firm” (Kortum & Lerner, p. 676). VC has played a major role in financing technological innovations in the Silicon Valley (Florida & Kenney, 1988). The benefit of VC finance is that venture capitalists also provide managerial input (human capital) and networks (social capital) (Gorman & Sahlman, 1989). However, the major drawback is that entrepreneurs face the dilution of ownership and enhanced disclosure (Harding, 2000). VC firms also expect a “high return of between 25 – 35% per year, therefore they invest in high growth industries rather than in good people and good ideas” (Zider 1998, p. 133). Thus, high-growth ventures in some industries and geographical locations may be able to access VC for supporting their innovations.

#### **2.4.2.2 Financing innovation in entrepreneurial ventures**

Financing innovation in established entrepreneurial ventures remains challenging. For instance, entrepreneurial ventures are reluctant to reveal their innovative ideas to the marketplace for fear of imitation by competitors (Bhattacharya & Ritter, 1983; Anton & Yao, 2002). Further, managers in large organisations find it difficult to justify internal investments in research and development of new technologies in comparison to other long-term investments. There are several reasons for this. First, the salaries of highly-educated scientists and engineers account for the majority of R & D costs (Hall & Lerner, 2010) and their efforts create an intangible asset – the firm’s knowledge base from which future innovation-based rents are expected. However, this is a tacit form of knowledge, that is, embedded in the human capital of the employees, and can be easily lost if they leave the organisation (Hall, 1996). Then, there is a high degree of uncertainty associated with the output of R & D investment. For instance, governments may withdraw tax credits and new technology may emerge elsewhere that renders the technology being developed

by the firm obsolete (Lach & Schankerman, 1988). This means that innovating firms need to constantly reassess their innovation investments – escalating their costs and demanding higher returns from such investments (Hall, 1996).

Large corporations often reduce risks and costs associated with new technology development by entering into collaborations (Rothwell, 1994) and adopting the practice of open innovation (Chesbrough, 2003). Open innovation is a paradigm in which a firm uses not only internal ideas but also external ones, and internal and external paths to market, as the firm seeks to develop its technology. Open innovation incorporates internal and external ideas into the firm's systems, which are defined by a business model (Chesbrough, 2003). There is growing evidence that such strategies are also being followed by small entrepreneurial ventures (Rothwell, 1994).

In general, finance remains a major constraint for innovation for new and established entrepreneurial ventures. This implies that entrepreneurs may often need to rely on intangible forms of capital – such as human and social capital – to obtain additional resources to support innovation.

### **2.4.3 Role of human capital in innovation**

Human capital is a key input in the innovation process. In general, human capital can be defined as the value embodied in the skills and cognition that individuals have acquired through learning by doing, formal education and in the family environment (Lin, 2001; Becker, 1962). Following Becker (1962), two components of human capital are recognised in literature. *Generic* human capital refers to general knowledge acquired by an individual (for example, an entrepreneur) through formal education and professional experience (Colombo & Grilli, 2005). *Specific* human capital includes knowledge of the industry or *industry specific* human capital or firm specific human capital, that is, knowledge specific to an industry or firm gained from previous work experience in the same industry or business (Dimov & Shepherd, 2005).

#### **2.4.3.1 Human capital and innovation in new ventures**

In the case of new ventures, research suggests that high education levels (or generic human capital) may provide an individual with essential entrepreneurial skills of opportunity recognition (Davidson & Honig, 2003). Opportunity identification involves technical skills (tangible part of human capital) like financial analysis or market research as well as the less tangible forms of human capital like creativity or problem solving skills (Hindle, 2004). Following opportunity identification, the Schumpeterian entrepreneur could create a new firm or start a new business

arrangement, introduce a new product or service, or develop a new method of production (Klein, 2008).

Empirical research provides evidence that the generic human capital of the founder entrepreneur is positively linked to technological innovations. For instance, in a large-scale longitudinal study of new ventures in the USA, Cooper et al. (1994) found that high-growth firms are more frequently created by more educated individuals. Similar results were reported for new technology-based ventures in the UK (Westhead & Cowling, 1995) and newly-established Bavarian firms (Bruderl & Preisendorfer, 2000).

Other studies suggest that the specific human capital of entrepreneurs is strongly related to their innovation capability. Specific human capital provides entrepreneurs with knowledge about the market (Roberts & Berry, 1985) and access to industry networks (Pittaway et al., 2004). Empirical research supports these assertions. For instance, in a large-scale longitudinal study conducted on 1053 new ventures, representative of all industry sectors in the USA, Cooper et al. (1994) found that industry specific human capital was strongly related to new venture success. A few studies have examined the impact of both generic and specific human capital on innovation. For instance, an empirical study by Marvel & Lumpkin (2007) on technology entrepreneurs in university-affiliated incubators found that both general and specific human capital components were found to be vital to innovation outcomes.

#### **2.4.3.2 Human capital and innovation in entrepreneurial ventures**

Previous research suggests that industry specific human capital of entrepreneurs enhances the innovation output of entrepreneurial ventures. For instance, Siegel et al. (1993) investigated innovation in both small and large, mature companies from across sectors in the USA. Their study found that high-growth ventures (small or large) were consistently run by a management (entrepreneurs or corporate entrepreneurs) with substantial industry experience.

Industry specific human capital is known to play a significant role in technological innovations. For instance, new products or ideas may be developed within a network of firms in an industry through technology transfer (Pittaway et al., 2004). In an empirical study, Kenney & Von Burg (1999) found that knowledge exchange across networks contributed to the development of technological innovations in the Silicon Valley. In another study, conducted in the food processing industry, Bianchi (2001) found that new innovations resulted from knowledge

integration amongst industry partners. Finally, specific human capital may also contribute to market innovations. In an empirical study, Manigart et al. (2007) found that a venture capital firm's decision to diversify into international markets is dependent on the previous international experience (or a measure of specific human capital) of its executives.

In summary, human capital is a key input in entrepreneurial innovation and in this thesis, the role of human capital is considered in the empirical investigation of social innovations. However, over the past few decades, the use of external knowledge in the innovation process has grown in importance. Consequently, the role of social capital in innovation has been emphasised in innovation literature.

#### **2.4.4 Role of social capital in innovation**

Social capital theorists argue that economic actors such as entrepreneurs and entrepreneurial ventures are embedded in webs of social relationships (Granovetter, 1985) and as social capitalists they capitalise on resources located in these networks (Lin, 2001; Coleman 1988). Social capital is thought to consist of three dimensions. The first dimension is structural, which describes social relations in terms of the frequency of social interactions (Naphiet & Ghoshal, 1998). The relational dimension refers to concepts of trust and trustworthiness while the cognitive dimension is embodied in attributes like a shared code that facilitates a common understanding of collective goals (Naphiet & Ghoshal, 1997).

##### **2.4.4.1 Social capital and innovation in new ventures**

The importance of social capital to an entrepreneur in new venture creation has been emphasised in entrepreneurship literature (Schutjens & Völker, 2010; Lechner & Dowling, 2003; Chell & Baines, 2000). Social capital provides several benefits to the entrepreneur. First, social networks are the source of new ideas and critical information (Davidsson & Honig, 2003), which can help entrepreneurs to identify profitable opportunities (Birley, 1985). Second, social capital influences individuals by making them contemplate an entrepreneurial career through exposure to new ideas and support for nurturing a new idea (Aldrich & Zimmer, 1986). Third, social capital helps one to gain access to other resources. For example, entrepreneurs access bank loans through their contacts (Uzzi, 1999). Empirical research supports these assertions. For instance, an empirical study conducted by Vesper (1983) found that entrepreneurial contacts were the main source of ideas in new firms. Similarly, Schutjens and Völker (2010) reported a positive relationship between social capital and new venture performance and Batjargal and Liu (2004) found that Chinese entrepreneurs access venture capital through their social networks. Thus, evidence

suggests that entrepreneurs use their social connections to obtain resources that would otherwise be acquired through expending their human or financial capital (Kim & Aldrich, 2005).

#### **2.4.4.2 Social capital and innovation in entrepreneurial ventures**

Social capital also provides several benefits to existing entrepreneurial ventures looking to innovate (Pittway et al., 1994). Scholars divide the social networks of firms broadly into two types: intra-firm networks (social relationships within a firm) or inter-firm networks (between firms). Intra-firm social networks permit organisational actors to share important information, access resources and to create a common point of view through frequent social interactions (Tsai & Ghoshal, 1998). Within large, complex multiunit organisations, inter-unit interaction is crucial for the creation and diffusion of innovations (Ibarra, 1993; Ghoshal et al., 1995). For instance, an empirical study conducted in a large electronics multinational firm by Tsai & Ghoshal (1998) found that internal social capital (that is, the organisation's internal network of social relationships) positively contributed to product innovation.

Through participation in inter-firm social networks, an entrepreneurial venture can share risks related to innovation with network partners (Grandori, 1997) and obtain access to new markets or technologies (Baba & Walsh, 2010; Grandori & Giuseppe, 1995). Social capital embedded in inter-organisational networks contributes to innovation mainly by reducing transaction costs for organisations. In particular, the costs reduced are: search and information costs; bargaining and decision costs; and policing and enforcement costs associated with contracts (Maskell, 1999). This is because trust that is generated through frequent social interactions between network members acts as a governance mechanism (Uzzi, 1996).

Thus, we see that social capital can contribute positively to entrepreneurial innovation in established entrepreneurial ventures. However, it is imperative to point out here that social capital can have negative influences, which can impede innovation. For example, as mentioned previously, an individual may be over-embedded in his or her relationship due to strong solidarity (Gargiulo & Bernassi, 1999). It is recognised that this thesis has not looked in detail into negative influences of social capital on innovation due to the time constraints of this doctoral study. In the empirical part of this thesis, the social capital of social entrepreneurs and their entrepreneurial ventures are investigated for their role in the social innovation process.



### 2.4.5 Empirical research using capital theories on innovation

Researchers have used different capital theories to explain the complex process of innovation as summarised in Table 2.4. Financial capital theory has been used to explain innovation as detailed in section 2.4.2. Specifically, financial theory has been used to explain innovation performance of technological innovations. For example, empirical research conducted in Sweden investigated the availability of financial capital for technological innovations (Dahlstrand & Centindamar, 2000). Similarly, a number of empirical studies have found that availability of venture capital supported technological innovations in the Silicon Valley (Florida & Kenney 1988; Ferrary & Granovetter, 2009). However, these innovation studies are predominantly quantitative and have investigated innovation within the context of technological ventures.

**Table 2.4: Empirical research using capital theories on innovation**

| Capital theory  | Studies  | Finding  |
|---|--|--|
| Financial capital   | Dahlstrand & Centindamar (2000)                  | The availability of financial capital is crucial for new technology start-ups.   |
|   | Ferrary & Granovetter (2009)                     | Venture capital has supported technological innovations.   |
|   | Florida & Kenney (1988)                          | Venture capitalists provide financial capital, human capital and social capital to technology start-ups in the Silicon Valley. |
| Human capital   | Cooper et al. (1994); Westhead & Cowling, (1995) | Human capital of the founder entrepreneur positively contributes to innovation output.   |
| Social capital  | Tsai & Ghoshal (1998)                            | Social capital positively impacts product innovation.  |
|   | Uzzi (1999)                                      | Entrepreneurs use their social contacts to access bank loans.  |
| Intellectual capital (construct including human, social and organisational capital) | Cuganesan (2005); Narvekar & Jain (2006)         | Intellectual capital positively contributes to technological innovations.  |

Human capital theory has also been used to explain innovation as detailed in section 2.4.3 of this chapter. For instance, empirical studies conducted on new ventures in a number of countries have found a positive link between the founder's human capital and innovativeness (Colombo & Grilli,

2005; Cooper et al. 1994; Westhead & Cowling, 1995). However, the majority of these innovation studies focused on technological innovations and were predominantly quantitative. Researchers have also used social capital theory to explain innovation as detailed in section 2.4.4 of this chapter. In summary, a number of empirical studies have used social capital theory to explain product innovation, for example, Tsai & Ghoshal (1998). However, these studies have focused on a single type of innovation such as a product or technological innovation and were largely quantitative in nature.

A number of scholars such as Narvekar & Jain (2006) and Cuganesan (2005) have used intellectual capital, a construct that integrates three intangible forms of capital: human, social and organisational capital, to explain technological innovation. Both the studies concluded that the interaction between the various forms of capital resulted in value creation during the innovation process.

To summarise, previous empirical research that uses capital theories to explain innovation has largely focused on a single type of innovation or a single capital theory (financial, human or social capital). Further, these studies were predominantly quantitative and focused on the outcomes of the innovation process (such as the product) rather than the innovation process itself. A few studies, such as Cuganesan (2005) and Narvekar & Jain (2006), have integrated two theories of capital (human and social capital) to explain technological innovation. However, these studies have not considered how access to finance plays a role in innovation (Hall & Lerner, 2010). In the next section, an innovation framework that integrates the three forms of capital is developed as this would provide a more holistic explanation of the entrepreneurial innovation process.

## **2.5 Developing a framework for entrepreneurial innovation**

In this section, a new, capital-based framework for entrepreneurial innovation is developed based on the key themes of the entrepreneur paradigm identified in the preceding sections (specifically, 2.2 and 2.3).

Within the entrepreneur paradigm, innovation is defined as a process involving novel resource combination by a social entity such as an entrepreneurial venture. The following four conditions

must be fulfilled for a social entity to engage in resource combination:

- 1) opportunity recognition such as discovery of a new user need or technological change;
- 2) availability of different forms of capital: financial, social and human;
- 3) profit motive or an anticipation of future innovation-based rents; and
- 4) potential for value generation valuing the form of new services or products introduced in the market.

These four conditions are visualised as three elements in Figure 2.1 and are explained in the following.

#### **Element 1: Innovation process**

In the proposed framework (Box 1 in Figure 2.1), the entrepreneurial innovation process is triggered by developments in the external environment that the entrepreneur recognises as an innovation opportunity. Entrepreneurial opportunities may exist because of changing demographics, social changes, emergence of new markets, or new market segments and changes in government regulations (Ireland et al., 2003). The entrepreneur is assumed to be driven by a profit motive to innovate. Following Van de Ven et al. (2008), the innovation process is conceptualised as consisting of three temporal periods: initiation, developmental and implementation. In the initiation period, a new user need is recognised and a novel solution for this is formulated by the entrepreneur (Burgelman & Hitt, 2007). The developmental period essentially involves testing the feasibility of the novel solution through experimentation (Van de Ven et al., 2008). The implementation period involves the introduction of new services or products, or new processes, or the creation of new organisations (Galunic & Rodan, 1998). Through the process of resource combination, the entrepreneur transforms existing resources (forms of capital) into value added outputs (such as new services or products). In the process, both economic value (innovation-based profits) and social value are generated (Moran & Ghoshal, 1999; 1996; Schumpeter, 1934).

#### **Element 2: Entrepreneurial function: new resource combinations**

As depicted in Box 2 in Figure 2.1, the entrepreneurial function is identified as the introduction of a new resource combination. The creativity of the entrepreneur involves conjecturing new resource (capital) combinations and bringing them to existence (Godfrey & Gregersen, 1999;

Hayek, 1945; Schumpeter, 1934). By combining various forms of capital in new ways, the entrepreneur expects to earn innovation-based rents (profits) at least until the time that imitator entrepreneurs reproduce those combinations. In the innovation framework, the triangle formed by double arrows represents a new resource recombination brought about by entrepreneurial efforts.

### **Forms of capital in resource combination**

For innovation to happen, three forms of capital have to be brought together in a new way: financial, social and human. The availability of a form of capital is considered as a resource (+) and its absence is a constraint (-). If a particular form of capital is a constraint, then the entrepreneur would have to leverage the available forms of capital to compensate for its absence. For instance, if finance is a constraint, then human and social capital can be leveraged.

### **Element 3: Value creation: new products/processes/ventures**

The anticipated profits motivate entrepreneurs and entrepreneurial ventures to engage in innovations, which are inherently risky in nature (Wolfe, 1994). The outcomes of the innovation process are new products/services/processes or ventures that generate economic value for the entrepreneurial venture. Social value is generated as a secondary outcome for innovation within the context of commercial entrepreneurial ventures as they are assumed to be driven by profit motives. To be persistently successful, the entrepreneur or entrepreneurial venture would have to continue to create new forms of value and, thereby, increase both their own and society's prosperity. Thus, the concept of resource recombination can explain both the economic and social benefits of innovation.

## **Figure 2.1 Framework for innovation: capital combinations with a profit motive**

*Source:* Adapted from Van de Ven et al. (2008); Shaw et al. (2005); McFadzean et al. (2005); and Schumpeter (1934).

**Note:** Box1 represents the innovation process, which is triggered by an entrepreneurial opportunity. Box 2 represents the capital combinations.

Box 3, labelled “Value Creation”, represents the outcomes of the innovation process such as new products or services. The innovation process involves resource combination by the entrepreneur as indicated by the arrows and circles representing forms of capital. The presence (+) of a form of capital represents a resource for innovation whereas its absence (–) is a constraint for innovation.

### **Novelty of the developed framework for entrepreneurial innovation**

The framework developed in this chapter provides a more holistic explanation of the entrepreneurial innovation process than existing studies. First, the innovation process models developed by Zhao (2005), McFadzean et al. (2005) and Shaw et al. (2005) focus on corporate entrepreneurship and associated activities. In contrast, the developed framework presented in this section can be used for explaining entrepreneurial innovation in both new and established entrepreneurial ventures. Second, the framework illustrates how the entrepreneurial function of resource or capital combination can be used for empirical investigations of the three phases of the entrepreneurial innovation process. To elaborate, one can identify which form of capital was a resource or a constraint by investigating historical accounts of an entrepreneurial innovation. Third, the framework illustrates that profit motives drive the introduction of new resource combinations by entrepreneurial ventures. This implies that entrepreneurial ventures anticipate future profits from introducing innovations regardless of the type of innovation (or resource combinations) they introduce.

The framework also provides a more holistic explanation of the entrepreneurial innovation process as it integrates three capital theories on innovation. Previous research using the capital approach has focused mainly on technological innovations such as the study by Tsai & Ghoshal (1998). Further, researchers who combined social and human capital theories on innovation such as Cuganesan (2005) and Narvekar & Jain (2006) have ignored the fact that financial capital is crucial for entrepreneurial innovation (Hall & Lerner, 2010; Dahlastrand & Centindamar, 2000).

## **2.6 Summary**

This chapter presents a critical review of innovation literature from an entrepreneurial perspective. First, the role of innovation and entrepreneurship in economic development is considered to justify the relevance of the entrepreneur paradigm in addressing this study's purpose. The second section provides a historical overview of entrepreneurial innovation studies. This section ends with a summary of the key themes of entrepreneurial innovation.

In the third section, the three capital theories used to explain innovation are presented. Financial/economic capital theory has been used by scholars to investigate the economics of innovation – that is, the financing of an innovation and the innovation performance of organisations. Such research is predominantly quantitative. Human capital theory has been used by researchers to examine innovative (mainly creative) processes/activities associated with

innovation. Studies have examined creativity at an individual level (such as creativity of entrepreneurs) and within entrepreneurial ventures (organisational creativity). Finally, social capital theory has been used to explain the influence of social relationships (individual and organisational) on innovation. This section then provides the rationale for integrating the three capital theories in a single study to provide a more holistic and integrated approach to investigating entrepreneurial innovation.

In the fourth section, an integrated capital-based framework for innovation is developed based on the preceding literature review. This addresses the first objective of this thesis. The framework depicts how three forms of capital (inputs) are combined in novel ways (process) by the entrepreneurial function to create new forms of value: new services/products and processes (outcome). This framework is more holistic in describing entrepreneurial innovation as it integrates three capital theories on innovation, depicts the role of the entrepreneur throughout the innovation process and considers the value created in the process. In the next chapter, this integrated innovation framework will be further modified to incorporate the distinctive characteristics of social innovation.

## **Chapter 3: Innovation in Social Entrepreneurial Ventures**

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### **3.1 Introduction**

Chapter 2 contained a critical review of innovation literature that culminated in the development of a capital-based framework on entrepreneurial innovation. In this chapter, the discussion focuses around social innovation within social entrepreneurial ventures. Social innovations are desirable as they create employment, develop new industries, introduce new business models and allocate resources to societal problems (Santos, 2010).

Social innovations with their embedded social purposes are distinct from business innovations. Some of the widely recognised social innovations involve the introduction of new business models in emerging economies (Seelos & Mair, 2005). For instance, the microfinance model of the Grameen Bank, Bangladesh was replicated worldwide leading to the creation of a global microfinance industry (Zahra et al., 2009). Yet, several aspects of social innovations remain unexplored. For instance, we do not know how social innovations develop (Chell et al., 2010) and what factors constrain or enable their emergence (Austin et al., 2006). Further, we are not aware why emerging economies like India with resource constraints have a higher incidence of social entrepreneurial activity (Mair & Marti, 2006). It is the intention of the present study to bring about more clarity to how social innovations develop under resource constraints.

First, the concepts of social entrepreneurship and social innovation are defined. This is followed by a historical overview of empirical research on social innovation. Then, the lens of capital is used to identify the distinctive features of social innovations especially their resource constraints. Finally, a framework for social innovation is developed by modifying the innovation framework developed in Chapter 2.



## **3.2 Defining social entrepreneurship and social innovation**

In this section, the concepts of social entrepreneurship and social innovation are defined.

### **3.2.1 The concept of social entrepreneurship**

Social entrepreneurship, like entrepreneurship, has been conceptualised and defined in different ways in literature. There are two distinct approaches to conceptualising social entrepreneurship: a narrow and a broad approach. In the former, social entrepreneurship refers to the process of applying business principles in the non-profit sector (Reis & Clohesy, 2001; Thompson, 2002). This approach originated in the late eighties. At that time, scholars called for non-profits to adopt business principles such as income-generating activities to ensure sustainability following a significant fall in government subsidies and private charitable donations (Fowler, 2000). However, this approach has been widely contested as it does not reflect the diversity of the social entrepreneurship practice.

In the broader approach, which currently dominates the field, social entrepreneurship refers to entrepreneurial activity with an embedded social purpose (Austin et al., 2006). Three types of social entrepreneurial ventures (SEVs) are also identified in literature: non-profit, for-profit, and cross sector (Dorado, 2006). The non-profit SEVs are non-profit organisations involved in business operations to finance their social services (Mort et al., 2003; Dees, 1998). The for-profit SEVs are ventures that integrate economic and social goals (Dorado, 2006). Finally, there are cross-sector SEVs, which are essentially collaborative initiatives engaging non-profit, for-profit and/or public organisations to solve challenging social problems (Waddock & Post, 1991). The present study adopts the broader approach and concurs with the view that social entrepreneurship is about social value creation irrespective of the organisational format adopted by the venture. In the following subsections the definitions of social entrepreneurship and social entrepreneurs within the broader approach are considered.

Social entrepreneurship has been examined at the individual and (inter)organisational levels. In the former, definitions of social entrepreneurs focus on the founder of the initiative. At the (inter)organisational level, definitions of social entrepreneurship typically refer to the process of value creation. A sample of these definitions that emphasise innovation is presented in Table 3.1.

As depicted in Table 3.1, researchers describing social entrepreneurs as innovators finds resonance with the Schumpeterian view on innovation detailed in Chapter 2. Social entrepreneurs have been described as individuals who provide innovative solutions (Roberts & Woods, 2005) or creative solutions to complex social problems (Zahra et al., 2009). In fact, social entrepreneurs are portrayed as heroic individuals who overcome social resistance (Ruebottom, 2011) much like Schumpeter's description of entrepreneurs. Professor Muhammad Yunus, the founder of Grameen Bank, is an example of a social entrepreneur who came up with an innovative solution – the concept of microfinance. Microfinance provides credit to disadvantaged nascent entrepreneurs who lack access to conventional financing from banks due to lack of collateral against bank loans. This enabled millions of poor women in Bangladesh to set up micro-enterprises (Zahra et al., 2009). Schreiner (2003) observes that the Grameen Bank model has been successfully replicated in North America, Europe, Latin America and Asia leading to the creation of a global microfinance industry (Bornstein, 1996). Professor Yunus's contributions earned him the Nobel Peace Prize for 2006. Thus, by developing innovative solutions to problems, social entrepreneurs act as *innovators*.

Social entrepreneurs have also been described as individuals who create and manage innovative social entrepreneurial ventures (Prabhu, 1999) or those who engage in a continuous process of innovation (Dees, 1998). An example of a social entrepreneur who created an SEV is John Bird, the founder of the *Big Issue* magazine. This magazine provides the homeless in the UK with an opportunity to become vendors and earn an income (Hibbert et al., 2002). Another example of a social entrepreneur engaged in innovation is Bill Drayton, the founder of the Ashoka network, which provides seed funding for other social entrepreneurs who have an innovative, social vision (Mair & Marti, 2006). Thus, in establishing new ventures, developing innovative programmes and organising/distributing new services, social entrepreneurs display the classic characteristics of the Schumpeterian entrepreneur as an *innovator*.

The definitions of social entrepreneurship reviewed in Table 3.1 also highlight innovation as a key characteristic of such initiatives (Tracey & Jarvis, 2007; Tan et al., 2005; Alvord et al., 2004). For instance, social entrepreneurship has been defined as entrepreneurial activity with an embedded purpose (Austin et al., 2006). Social entrepreneurship has also been described as the activities and processes undertaken to discover, define, and exploit opportunities in order to

**Table 3.1 Social entrepreneurship definitions emphasising innovation**

| Author(s)                        | Definition   | Unit of Analysis        |
|----------------------------------|--|-------------------------|
| Zahra et al. (2009, p. 522)      | 'Social entrepreneurship encompasses the activities and processes undertaken to discover, define, and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organisations in an innovative manner.'  | Social entrepreneurship |
| Tracey and Jarvis (2007, p. 670) | 'Social entrepreneurship is often defined as innovation that leads to positive social change regardless of the mechanisms through which it is achieved (that is, through earned income and/or contributed income).'  | Social entrepreneurship |
| Mair and Marti (2006 p. 37)      | 'Social entrepreneurship is defined as the innovative use of resources to explore and exploit opportunities that meet a social need in a sustainable manner.'  | Social entrepreneurship |
| Austin et al. (2006, p. 2)       | 'Social entrepreneurship can be defined as innovative, social-value creating activity that can occur within or across the non-profit, business, or government sectors.'  | Social entrepreneurship |
| Tan et al. (2005)                | Making profits by innovation in the face of risk with the involvement of a segment of society and where all or part of the benefits accrue to that same segment of society.  | Social entrepreneurship |
| Alvord et.al. (2004, p. 262)     | 'Social entrepreneurship is an array of mission-based ventures aimed at creating innovative solutions to immediate social problems by mobilising ideas, capacities, resources and arrangements required for sustainable social transformations.'   | Social entrepreneurship |
| Mort et al., (2003, p. 76)       | 'Social entrepreneurship is a multidimensional construct involving the expression of entrepreneurially virtuous behaviour to achieve the social mission, a coherent unity of purpose and action in the face of moral complexity, the ability to recognise social-value creating opportunities and key decision characteristics of innovativeness, pro-activeness and risk taking.'   | Social entrepreneurship |
| Roberts and Woods (2005, p. 49)  | Group of individuals with innovative solutions to perceived social needs.  | Social entrepreneur     |
| Prabhu (1999, p. 140)            | 'Social entrepreneurs are persons who create and manage innovative entrepreneurial organisations or ventures whose primary mission is the social change and development of their client group.'  | Social entrepreneur     |
| Dees (1998)                      | Social entrepreneurs possess five criteria: 1) adopting a mission to create and sustain social value; 2) recognising and relentlessly pursuing new opportunities to serve that mission; 3) engaging in a process of continuous innovation, adaptation and learning; 4) acting boldly without being limited by resources currently in hand; and 5) exhibiting a heightened sense of accountability to the constituencies served and to the outcomes created (p. 4). | Social entrepreneur     |

enhance social wealth by creating new ventures or managing existing organisations in an innovative manner (Zahra et al., 2009). Common across all definitions of social entrepreneurship is the assumption that social entrepreneurial initiatives aim to create social value (Peredo & McLean, 2006) which is perhaps best reflected in this definition by Mair & Marti (2006):

*“the innovative use and combination of resources to explore and exploit opportunities that meet a social need in a sustainable manner”*

(p. 37)

The phrase ‘innovative use of resources’ in the above definition resonates with Schumpeter’s view detailed in Chapter 2 where innovation is defined as the process of introduction of a novel combination of resources by an entrepreneur (Schumpeter, 1934). Schumpeter’s prime objective was to focus on the socio-economic function of carrying out new combinations (Long, 1983) by highlighting innovation as an activity that an entrepreneur engages in. In innovatively using resources to offer solutions to social needs, the social entrepreneur also introduces new combinations.

Several researchers argue that social entrepreneurs exemplify the Schumpeterian innovator (Overall et al., 2010; Zahra et al., 2009; Tapsell & Woods, 2010). Further, innovative solutions introduced through social entrepreneurship lead to significant changes in the social, political and economic contexts for poor and marginalised groups (Alvord et al., 2004). These can be seen as disruptive innovations in the Schumpeterian sense as they replace existing practices. In other words, social innovations introduced by social entrepreneurs represent new combinations that contribute to social development in the same manner as the creative gales of destruction unleashed by the Schumpeterian entrepreneur lead to economic development (Schumpeter, 1934).

To summarise, innovation is considered central to the notion of social entrepreneurship, social entrepreneurs and SEVs. This raises the question of how innovations introduced by SEVs are distinct from business innovations introduced by entrepreneurial ventures detailed in Chapter 2. It is with this intention that the next section presents the conceptualisation of social innovation.

### **3.2.2 The concept of social innovation**

Social innovations are not a new phenomenon. The literature is replete with examples of several 18<sup>th</sup> and 19<sup>th</sup> century social reformers (mainly from Anglo-Saxon countries) who, as change makers, neatly fit the description of social entrepreneurs. For instance, Mumford (2002)

describes ten cases of social innovations introduced by Benjamin Franklin, a prolific 18<sup>th</sup> century social entrepreneur in the USA. Franklin's creativity enabled him to come up with novel concepts ranging from the subscription library to the printing business. In the past few decades, a surge in the practice of social entrepreneurship worldwide has made social innovation a globally recognised phenomenon.

The term social innovation has been widely used in academic and practitioner literature. In the academic literature, social innovations have been conceptualised in alternative ways from institutional change to new ideas with an embedded social purpose (Pol & Ville, 2009). A systematic approach to understanding social innovations begins by considering its component words: social and innovation. Innovation, as summarised by Phills et al. (2008), has four distinct elements: 1) the process of innovating, 2) its outcomes, 3) the diffusion or adoption of the innovation which makes it widespread, and 4) the value generated by the innovation. In commercial entrepreneurship, as detailed in Chapter 2, profit motives drive innovation, or the innovator is driven by profits to undertake innovation. Defining what constitutes a social innovation is more challenging.

In social entrepreneurship literature, definitions suggest that 'social' refers to the motivations of the social entrepreneur or what is referred to as the centrality of the social mission in a social enterprise (e.g., Austin et al., 2006; Dees, 1998). Some definitions highlight the 'social value' (or positive social change) generated in the process by distinguishing it from economic/financial value (e.g., Tracey & Jarvis, 2007). Finally, several definitions suggest that such initiatives provide solutions to social problems or needs (e.g., Alvord et al., 2004). Bearing these complexities in mind, perhaps the best insight into social innovation is provided by the Stanford Social Innovation Group's definition of social innovation within the context of social entrepreneurship:

*"A novel solution to a social problem that is more efficient, effective, sustainable or just than existing solutions and for which the value created accrues primarily to society as a whole rather than private individuals"*

(Phills et al, 2008, p. 36).

From the above definition, the following features of social innovation are derived that can help identify an innovation as a social innovation. First, it represents a novel solution to a social problem. Then, the solution must be more efficient or effective or sustainable or just than existing solutions. Finally, the value created from the innovation primarily accrues to the society rather than private individuals. These criteria form the basis for identifying social innovations in for-profit SEVs in the empirical part of this study. Table 3.2, which follows, presents a few examples of social innovations from the social entrepreneurship literature.

**Table 3.2 Examples of social innovation from literature**

| <b>SEV</b>                                    | <b>Innovation</b>   | <b>Source</b>        |
|---|---|----------------------|
| Grameen Bank, Bangladesh                      | Micro-credit package: Provide group loans for poor and marginalised people to develop income-generating activities.                                   | Alvord et al. (2004) |
| Highlander Research and Education Center, USA | Uses adult education to help grassroots individuals and groups develop their own solutions to problems of political voice and local problem solving.  | Alvord et al. (2004) |
| Aravind Eye Hospital, India                   | Provides eye services and cataract surgery for the poor at a fraction of the cost for these services in developed countries.                          | Mair & Marti (2006)  |
| Sekem, Egypt                                  | A multi-business social venture. It not only creates economic, social, and cultural value, but has also had a significant impact on Egyptian society. | Mair & Marti (2006)  |

As depicted in Table 3.2, some social innovations involve creating economic security for the poor. For instance, the Grameen Bank's micro-credit package provides group loans to poor women to develop income-generating activities (Alvord et al., 2004). Some social innovations provide innovative, low-cost medical services for the poor. An example would be the Aravind Eye Hospital in South India, which provides low-cost eye care services and cataract surgery for the poor (Mair & Marti, 2006). The hospital subsidises these services from fees given by full-fee paying patients and other donors.

The above mentioned examples of social innovations suggest that social innovations introduced by SEVs are a widespread phenomenon with much diversity in their scope and origins. First, each of these social innovations involve a particular segment of society (usually a marginalised group) and all or part of the benefits of the innovation accrue to that same segment of society (Tan et al., 2005). This segment of the population is often referred to in the social entrepreneurship literature as target beneficiaries (e.g., Alvord et al., 2004). Second, social innovations transcend geographies from developed economies like the USA to emerging economies like India. In fact, India is identified in the literature as one of the most fertile grounds for social entrepreneurship (Mair & Marti, 2006; Nicholls, 2006). Third, these social innovations serve diverse sectors, from health to banking, with benefits accruing largely to marginalised group(s) in society. Finally, SEVs show much diversity with respect to their organisational format. For instance, Sekem in Egypt is a multi-business social venture while the Highlander Research and Education Center, in the USA, is organised as a social movement.

In closing this section, the practice of social entrepreneurship has introduced several social innovations across the globe, thereby contributing to economic development. The next section reviews empirical research on such social innovations in order to identify gaps for further research.

### **3.3 History of research on social innovation within SEVs**

In this section, a historical overview of social innovation studies conducted within the context of social entrepreneurship is presented. The social entrepreneurship literature provides several case descriptions of social innovations. However, few conceptual or empirical studies have investigated social innovations within the context of SEVs. Following an extensive review of over 170 peer-reviewed journal articles, the author identified nine studies on social innovations as summarised in Table 3.3. These are detailed next in chronological order.

In their exploratory study, Weerwardana and Sullivan Mort (2001) examined innovative ways in which entrepreneurial not-for-profit organisations delivered superior care for the elderly. Their study concluded that such organisations were driven by their social mission to build and nurture distinctive learning capabilities that enable them to formulate innovative strategies. In another empirical study, Alvord et al. (2004) investigated seven cases of successful social entrepreneurship using multiple case study analysis on secondary data. Their exploratory study

**Table 3.3 History of research on social innovation within SEVs**

| <b>Study</b>                       | <b>Method</b>                                 | <b>Key Findings</b>  |
|------------------------------------|---|--|
| Weerwardana & Sullivan Mort (2001) | Single case study analysis                    | Identified innovative ways in which entrepreneurial not-for-profit organisations delivered superior aged care.   |
| Alvord et al. (2004)               | Multiple case study analysis                  | Identified three patterns regarding social innovations: 1) Can be categorised into 3 forms: building local capacity, disseminating package and building a movement; 2) small financial investments can produce sustained changes; and 3) bridging and adaptive leadership usually present. |
| Spear (2006)                       | Multiple case study analysis                  | Found a limited degree of innovation in a substantial proportion of cases.   |
| Weerwardana & Sullivan Mort (2006) | Grounded theory to investigate multiple cases | Innovativeness identified as core behavioural dimension of social entrepreneurship.  |
| McDonald (2007)                    | Mixed methods                                 | Social mission is used by managers as selection criteria for developing innovations.   |
| Chell et al. (2010)                | Literature review                             | Social enterprises worldwide foster innovations. They also called for further comparative research on this aspect.   |
| Bridgestock et al (2010)           | Mixed methods                                 | Social enterprises were found to exhibit unique characteristics in terms of size and location and have a double remit to add value both economically and socially.   |
| Tapsell and Woods (2010)           | Case study analysis and complexity theory     | Historical and cultural context in which innovation occurs are an important consideration for understanding both social and economic entrepreneurship.   |
| Witkamp et al. (2011)              | Case study analysis                           | Strategic niche management (SNM), a tool used to understand and manage radical socio-technical innovations, could be used to analyse radical social innovation. Though it requires rethinking the initial entry point for research and management  |

identified three patterns in relation to social innovations. Firstly, social innovation can be categorised into three forms: building local capacity, disseminating a package, and building a movement. Secondly, all the initiatives were able to leverage relatively small investments



(financial capital) to produce sustained changes resourced in large part by poor and marginalised groups (social capital). Thirdly, some form of bridging and adaptive leadership was present in most successful initiatives (Alvord et al., 2004).

Spear (2006) investigated six cases of social entrepreneurship in the UK and found limited levels of innovative activity in a large proportion of the cases. In contrast, Weerwardana and Sullivan Mort (2006) conducted in-depth interviews with key decision makers in nine non-profit SEVs in Australia. Using grounded theory for analysis, their study found that innovativeness was a core behavioural dimension of social entrepreneurship. Further, social entrepreneurs (unlike for-profit entrepreneurs) were “found to operate within optimization constraints and superior social value creation was identified as the outcome of social entrepreneurship” (Weerwardana & Sullivan Mort, 2006, p. 33).

In an empirical study on innovation in non-profits conducted in the USA, McDonald (2007) used mixed research methods and found that the social mission facilitated innovation. The study reported that a clear, motivating organisational mission enabled managers to focus on those innovations that were most likely to support the accomplishment of that mission.

In a recent special issue on innovation in social entrepreneurship, Chell et al. (2010) highlighted that social enterprises worldwide foster innovation to address social problems. They also called for further comparative research on how innovative solutions to social problems might be developed by social enterprises. In the same special issue, two empirical studies were also included. In the first study, conducted in the UK, Bridgstock et al. (2010) examined the linkages between diversity management, innovation and high performance in social enterprises. The paper was based on mixed methods using a national survey along with case study data. The authors found that social enterprises exhibited unique characteristics and that diversity management could maximise innovation output of social enterprises. In the second empirical paper in the special issue, by Tapsell and Woods (2010), complexity theory and neo-Schumpeterian view on innovation as self-organisation was used to examine entrepreneurial activity in the Maori tribes of New Zealand. The study concluded that the historical and cultural contexts in which innovation occurs are an important consideration for understanding both social and economic entrepreneurship.

In a recently published empirical study, Witkamp et al. (2011) examined the application of the Strategic niche management (SNM) tool for investigating social innovations. This study

concluded that such application could be used to analyse a radical social innovation but with some modifications given the distinctive nature of social innovations.

### **Gaps in extant research on social innovation**

The review of research on social innovation within the context of SEVs (as summarised in Table 3.3) revealed several gaps in our understanding of the social innovation phenomenon. A major drawback in the majority of studies reviewed was the absence of theoretical constructs from existing innovation theory. However, two exceptions to this were Tapsell and Woods (2010), who based their study on the neo-Schumpeterian view on innovation, and Witkamp et al. (2011), who used Strategic niche management tool, which is used to investigate the management of socio-technical innovations. Further, the nine exploratory studies did not adequately answer fundamental questions on the nature of social innovations and describe the process of emergence and development of social innovations.

For instance, Chell et al., (2010) suggest that further research is needed to investigate how innovative solutions to social problems are developed, and Pol and Vile (2009) identify a gap in research investigating how social innovations are distinct from business innovations.

This doctoral study aims to fill these gaps by empirically investigating social innovations in three cases of for-profit SEVs in India. Further, the theoretical framework on innovation developed in Chapter 2 draws insights from economics, entrepreneurship and innovation literature. Using this approach, this study aims to develop new insights into the social innovation process.

## **3.4 Distinguishing social innovations using capital theories**

As detailed in Chapter 2 (section 2.3), three capital theories – financial, human and social – have been used in innovation research to explain innovation. In this section, the distinctive features of social innovations are identified using the lens of these three capital theories.

### **3.4.1 Financial capital: a constraint for social entrepreneurial ventures**

As described in Chapter 2 (section 2.4.2), financing innovations poses challenges for entrepreneurial ventures. However, high-growth new ventures can gain access to equity financing from venture capitalists (Ferrary & Granovetter, 2009). In the case of SEVs,

attracting potential investors such as venture capitalists to support social innovation is even more problematic. First, non-profit SEVs are legally restricted from distributing profits and thus are unable to offer financial returns (Austin et al., 2006). Second, in the case of for-profit or cross-sector SEVs the embedded social purpose creates ambiguity regarding financial returns as these ventures cannot be evaluated in pure financial terms (Mair & Marti, 2006). In the absence of clear information regarding financial returns, venture capitalists would be reluctant to invest in SEVs. Third, philanthropic investors, or venture philanthropy, have emerged in the past decade (Zahra et al., 2009). These investors specifically finance social ventures aligned to their social objectives. However, they are relatively few in number and restricted to certain geographical areas such as the UK (Hockerts, 2006). For the majority of SEVs, gaining access to such investors is limited given the difficulty in evaluating SEVs as a potential investment.

Empirical research provides evidence to support the assertion that SEVs lack access to venture capitalists. For instance, in a large-scale empirical study conducted in Israel, Sharir and Lerner (2006) reported a lack of appropriately structured, risk-tolerant financing to fund early-stage development of SEVs. Similarly, Bradach (2003) observed that SEVs find it difficult to access finance for expansion. Thus, in general, SEVs lack access to financial capital, which suggests that financial capital is likely to be a constraint for social innovations.

### **3.4.2 Human capital: a constraint for social entrepreneurial ventures**

As described in section 2.4.3 of Chapter 2, empirical research indicates that the human capital of the founder entrepreneur(s) is a key input in entrepreneurial innovation (Bruderl & Preisendorfer, 2000; Westhead & Cowling, 1995). In the case of entrepreneurial ventures, research has found that industry specific human capital plays a significant role in technological innovations (Pittaway et al., 2004; Bianchi, 2001). In general, high levels of human capital (generic of specific forms) are known to be associated with high levels of innovation output in commercial entrepreneurial ventures.

In the case of SEVs, exploratory research conducted on Israeli start-up firms found that previous managerial experience (or industry specific human capital) was a key determinant of a venture's success (Sharir & Lerner, 2006). Some researchers argue that mobilising human resources with high levels of human capital can be difficult due to several reasons. First, recruiting individuals with desirable skills and knowledge for innovation (or high levels of human capital) is expensive and SEVs are rarely able to pay market-rate compensations (Oster, 1995). Second, in the case of

non-profit SEVs, regulatory restrictions such as non-distribution of profits implies that equity incentives such as stock options cannot be offered to attract human resources except in case of for-profit organisational formats (Austin et al., 2006). The lack of financial incentives makes it difficult to hire talented and creative people. Third, SEVs rely on volunteers to serve key functions such as board members, to help with fundraising or to provide professional services or as staff to deliver services on the ground (Dorado, 2006). This is likely to create challenges for management looking to encourage innovative behaviour within the organisation.

In summary, exploratory research suggests that the human capital of the social entrepreneur contributes to new venture success but existing SEVs face constraints in accessing human capital for innovation. In general, there is a dearth of empirical research that uses human capital theory to investigate innovation, which is one of the motivations for this thesis.

### **3.4.3 Social capital: enabler of social innovation**

As described in section 2.4.4 of Chapter 2, empirical research indicates that entrepreneurs and entrepreneurial ventures leverage their social capital for innovation (Schutjens & Völker, 2010; Lechner & Dowling, 2003; Pittway et al., 1994). In the case of SEVs, there is some evidence that social capital may help overcome their lack of access to financial and human capital as summarised in Table 3.4 that follows. For instance, in an empirical study that examined seven cases of successful SEVs from Asia, Latin America, North America and Africa, Alvord et al. (2004) found that all the SEVs had used pre-existing community assets (community's social capital) in their core innovations. The use of the community's social assets meant that relatively small investments (financial capital) could be used to bring about large-scale changes.

The Grameen Bank's credit delivery system is another example where the women borrowers are organised into small groups sharing responsibility for loans granted to members (Mair & Marti, 2006). Though loans are given out for individual projects, the group is jointly responsible for the repayment of each loan (Wahid, 1994; Bernasek & Stanfield, 1997). In essence, the group's social capital acts as a self-governance mechanism reducing the need for the bank to employ trained human resources for monitoring loan repayments, thereby saving scarce financial capital.

Social capital has also played a major role in social entrepreneurship within community-based enterprises (CBEs) where the community has joint ownership of the venture. Peredo and

Chrisman (2006) provide several examples of CBEs in resource-constrained environments in South America that are built on the social capital stock of a community. The community of Quero

**Table 3.4 Innovative use of social capital by SEVs**

| SEV  | Resource leveraged   | Source                   |
|--|--|--------------------------|
| BRAC<br>Six-6<br>Green Belt Movement<br>Grameen Bank,<br>Highlander Research &<br>Education Centre<br>SEWA | Pre-existing community assets (community's social capital) used in core innovations. This meant relatively small investments (financial capital) could be used to bring about large-scale changes. | Alvord et al. (2004)     |
| Grameen Bank   | Social capital (group lending)<br>Women organised into small groups that self-monitor loan repayments.   | Mair & Marti (2006)      |
| The community of Quero in Peruvian Andes.<br>Non-profit Community-Based Enterprises (CBE).                 | Social capital of community members.   | Peredo & Chrisman (2006) |
| Grameen Phone<br>Grameen Telecom<br>Cross-sector SEV   | Social capital (from collaboration)<br>Intangible resources: reputation, goodwill of Grameen Brand   | Seelos & Mair (2005)     |

in the Peruvian Andes is an example of a CBE that has used the social capital of the community to organise communal sheep farms (Peredo, 2001). Here, social capital acts as a collective resource which can provide CBEs with access to other resources such as knowledge and capital (Peredo & Chrisman, 2006). By participating in these ventures, local people living in poverty could address their economic and social issues through ownership of a CBE.

Resource constraints also drive SEVs (like entrepreneurial ventures) to enter into collaborative arrangements such as joint ventures and strategic alliances to gain access to external resources. For instance, Grameen Bank, Bangladesh, entered into a joint venture with Telenor, a Norwegian telecom company, to create two telecom companies – Grameen Phone and Grameen Telecom (Malaviya et al., 2004). In this strategic alliance, Telenor was able to leverage the Grameen brand – associated with trust (a form of social capital) with poor and middle income people in Bangladesh (Seelos & Mair, 2005). This represents a cross-sector SEV as described by Dorado (2006).

#### **3.4.4 Ambiguity with social value causes resource constraints**

Social entrepreneurship literature suggests that SEVs face resource constraints especially with respect to financial and human capital as detailed in sections 3.4.1 and 3.4.2. This section explores how ambiguity associated with social value might cause resource constraints. Researchers argue that innovations introduced by SEVs have an embedded social purpose (Mair & Marti, 2006; Weerawardena & Sullivan Mort, 2006; Christie & Honig, 2006). Some scholars suggest that the very purpose of existence of an SEV is to create social value either exclusively or at least in some prominent way (Peredo & McClean, 2006). In contrast, entrepreneurial ventures in commercial entrepreneurship are driven by profit motives to innovate (Pol & Vile, 2009). It is true that some social value is created in commercial entrepreneurship during the process of creating private gains, whereas in the case of social entrepreneurship private gains may be incurred during the process of creating social values (Emerson, 1999). However, debate persists that in each case these are secondary gains and these two forms of entrepreneurship are driven essentially by different missions.

Scholars highlight that the fundamental nature of SEVs is that they serve a social mission that is not overshadowed by profit maximisation (Mair & Marti, 2006). Though some debate this aspect, the value of an SEV is judged in terms of social value creation, which means that performance cannot be valued exclusively in financial terms (Dorado, 2006). However, there are several challenges to measuring and identifying social value. First, it is difficult to articulate social objectives in measurable and accountable ways as this includes intangible elements such as trust and empowerment (Dees & Anderson, 2003a; 2003b). For instance, what is the social value of the empowerment of women entrepreneurs in male-dominated societies or in providing employment to the homeless? Second, there is no standardised performance measure for social value. Here, it is imperative to point out that standardised measures of social value creation are still in the developmental stages (Darby & Jenkins 2006; Somers, 2005; Harrington, 2003; Emerson, 2000). The lack of standardised measures for social value creates information asymmetry problems between social entrepreneurs and potential investors. As a consequence, SEVs are generally excluded from conventional funding sources such as banks, equity markets, angel funding and venture capital available to commercial enterprises as the latter can resort to standardised and well-established financial performance indicators. Thus, the ambiguity associated with social value created limits access to financial capital in social innovation. In the case of entrepreneurial ventures, similar challenges are faced by technological start-ups as mentioned in Chapter 2, section 2.4.2.1.

### 3.4.5 User involvement in social innovation

Social innovations provide good examples of user involvement in the innovation process where user involvement refers to users developing or actively contributing to innovations (Hippel, 2005). For instance, as explained earlier, the women borrowers (target beneficiaries or end users) of the Grameen Bank's credit delivery system share responsibility for loans granted to group members (Mair & Marti, 2006). Similarly, in the case of the *Big Issue* magazine, the homeless in the UK are involved in the sales of the magazine (Hibbert et al., 2002). Thus, the end users or target beneficiaries are actively engaged in the development and implementation of social innovations.

SEVs are able to actively engage marginalised groups (or end users) in the social innovation process because all or part of the benefit of a social innovation accrues to the marginalised group being served (Tan et al., 2005). The innovating SEV also benefits as it is able to leverage the group social capital (of the marginalised group), which reduces the financial capital required for the innovation. For instance, in the Grameen Bank case, described in the preceding paragraph, the involvement of women borrowers in loan repayments reduces the need to pay trained staff to monitor loans. Similarly, by using the homeless as vendors, the *Big Issue* magazine reduces the need to appoint sales agents and setting up sales offices. In contrast, not all commercial innovations provide benefits or are attractive to all users as it is the innovator who is the major beneficiary of innovation-based profits (Hippel 2005; Hippel 1986). For instance, highly-specialised manufacturing equipment might only be valuable to a given manufacturing company and the same argument is valid for highly-customised products. It is because social innovations lead to significant changes in the social, political and economic contexts for poor and marginalised groups (Alvord et al., 2004) that SEVs are able to access the social assets of the marginalised groups to support the innovation.

The success of a social innovation can be judged on its ability to further the social mission of an SEV (McDonald, 2007). For instance, if the mission of an SEV such as the Grameen Bank is to provide economic opportunities to rural women then its innovation-*micro credit* would be judged on its ability to serve those women. In contrast, the success of innovation in commercial entrepreneurship is judged by its successful commercialisation in the market (Drucker, 1985). In general, the market selection mechanisms for commercial innovations are fairly intense as innovation is one way that commercial enterprises gain competitive advantage (Wolfe, 1994). In contrast, in the social sector, these mechanisms are less intense because they tend to be less powerful and act over longer periods of time (Austin et al., 2006). Besides, in both non-profit and for-profit SEVs, the social entrepreneur defines a social entrepreneurial opportunity motivated by

their realisation of a market failure – an area where markets do not do a good job of valuing social innovation, public goods and benefits for people who cannot afford to pay (Dees, 1998). Social innovations are developed with an aim of providing solutions to social problems by building new social arrangements and mobilising resources in response to those problems rather than market criteria (Alvord et al., 2004).

In general, SEVs compete more on the input side for resources and competition in the output side (markets) is rare given the wide scope of social innovations (Prabhu, 1999). In the absence or weak influence of market mechanisms in the social sector, the end user of a social innovation can be viewed as the final arbitrator of the success of a social innovation.

### **3.4.6 Summary: distinctiveness of social innovation**

In summary, the following distinctive characteristics of social innovation can be identified:

- 1) Social innovations within SEVs develop under resource constraints, especially with respect to financial and human capital. To illustrate this, Box 2 in Figure 3.1 shows (–) signs in the circles representing financial and human capital, indicating resource constraints.
- 2) Social capital is identified as an enabler of social innovations, especially the social capital of the target communities, to compensate for the lack of human and financial capital. This is depicted in Box 2 of Figure 3.1 by the (+) signs indicating that social capital is a resource in social innovation.
- 3) The ambiguity associated with social value (or the lack of a clear profit motive) creates resource constraints. This is depicted in the micro-model of social innovation (Figure 3.2), which focuses on the resource combinations and their context.
- 4) Social innovations extensively involve the end user/target beneficiary. This is depicted in Figure 3.2 as one of the contextual factors of social innovations.

In the following section, a new framework for the social innovation process is developed incorporating these four features.



### **3.5 Developing a framework on social innovation**

In Chapter 2, a new, holistic capital-based framework for innovation (Figure 2.1) was developed. The framework illustrated how different forms of capital (human, social and financial) were combined by an entrepreneur (founder or corporate entrepreneur), driven by a profit motive, into new forms of value such as new products and services during the innovation process. In this section, the framework is modified to incorporate the distinctiveness of social innovation identified in section 3.4. Figure 3.1 presents the modified framework for the social innovation process and comprises three elements: the social innovation process; new resource (capital) combinations and value creation. The framework assumes that the social innovation process is triggered by the existence of barriers within the resource-constrained environments of for-profit SEVs (Baker & Nelson, 2005). The three elements of the framework are detailed in the following.

#### **Element 1: Social innovation process**

In the proposed framework (Box1 in Figure 3.1), the social innovation process is triggered by the recognition of a social problem representing a social entrepreneurial opportunity by social entrepreneur(s) (Corner & Ho, 2010; Hockerts, 2006). It is assumed that the social entrepreneur is driven by motives to create some form of social value (Austin et al., 2006; Chell et al., 2010). Here, there is much ambiguity associated with what constitutes social value. In general, social innovations involve a particular segment of society (end users) who can be identified as the target beneficiaries of the innovation (Tan et al., 2005).

Following Van de Ven et al. (2008), the innovation process is assumed to consist of three phases or temporal periods: initiation, development and implementation. However, in the social entrepreneurship literature scholars commonly use the term scaling when they refer to the implementation of a social innovation (e.g., Austin et al., 2006; Guclu et al., 2002). This is because it is a common practice in SEVs to adopt inorganic growth strategies to diffuse (or implement) a new idea through collaborations and alliances. Thus, for the social innovation process the three phases are modified as: initiation, development and scaling. During the initiation period, a solution for an unmet social need or problem is conjectured by the social entrepreneur (Corner & Ho, 2010). This period is characterised by much experimentation and refinement of ideas. The developmental period involves activities that help crystallise the new idea such as creating a social mission, registering a new venture, mobilising resources and so on (Guclu et al., 2002). Finally, during the scaling period of a social innovation, the new idea is diffused through activities such as organisational expansion or collaboration with other

organisations (Austin et al., 2006). Through the process of innovative resource combinations, the social entrepreneur transforms existing resources (different forms of capital) into value, both economic and social (Dorado, 2006).

#### **Element 2: Entrepreneurial function: new resource combinations**

As depicted in Box 2 in Figure 3.1, financial capital is a constraint, represented by minus signs. This reflects the lack of access to financial capital for new and established for-profit SEVs as reported in literature (Sharir & Lerner, 2006; Austin et al., 2006). Then, human capital is also shown as a constraint, as indicated by minus signs, reflecting the difficulties faced by SEVs in mobilising high-quality human capital as claimed by Austin et al. (2006). Finally, social capital is seen as an enabler of social innovations, and depicted by plus signs.

Figure 3.2 represents the micro-view of the new resource combinations within a social innovation. A new capital resource combination is depicted by the triangle formed from the combination of three forms of capital: financial, human and social. Two contextual factors are included in the micro-view of the social innovation framework. These are represented by the outer circle, which depicts, firstly, that ambiguity associated with social value creates resource constraints and, secondly, the assumption that end users are actively involved in the social innovation process as argued by Tan et al. (2005).

### **Figure 3.1 Social innovation process (macro-view)**

*Source:* Adapted from Guclu et al. (2002); Austin et al. (2006); Van de Ven et al. (2008); Shaw et al. (2005); McFadzean et al. (2005); and Schumpeter (1934).

**Note:** Box 1 represents the social innovation process. It illustrates the social entrepreneurial opportunity that led to the development of a new business model as the temporal periods of the social innovation. Box 2 represents the resource/capital configurations, that is, financial, human and social capital. The presence (+) of a form of capital represents a resource for innovation whereas its absence (–) is a constraint for innovation. Box 3 indicates the blended value, that is economic value as captured by new products or services offered and social value in terms of benefits to the target beneficiaries.

### **Element 3: Value creation: economic and social value**

Social innovations are developed with an embedded social purpose (Pol & Vile, 2009) so that both economic and social value is generated. The economic value of a social innovation can be measured in terms of target beneficiaries served (Tan et al., 2005) or growth in sales/turnover. In this thesis, economic value is empirically evaluated by examining these growth figures. The social value of a social innovation is difficult to capture due to a lack of standardised measures (Paton, 2003). In general, empirical research suggests that social innovations further the social mission of an SEV (McDonald, 2007). Further, the benefits accruing to the target beneficiaries of a social innovation can be used to capture the social value (Tan et al., 2005). In this thesis, social value is empirically evaluated by gathering responses from the target beneficiaries of the social innovation.

### **Figure 3.2 Social innovation: capital combinations under constraints**

*Source:* Adapted from Guclu et al. (2002); Austin et al. (2006); Shaw et al. (2005); McFadzean et al. (2005); and Schumpeter (1934).

**Note:** The outer circle with dotted lines represents the contextual factors: ambiguity associated with social value and role of end users. The inner circle represents the outcomes of the innovation process: new products or services. The innovation process involves resource combinations by the social entrepreneur as indicated by the arrows. The presence (+) of a form of capital represents a resource for innovation whereas its absence (–) is a constraint for innovation.

## **Validation of the social innovation framework**

The social innovation framework developed in this section will be used as a template to investigate social innovations in three for-profit SEVs in India. The three elements derived from the framework: 1) social innovation process; 2) capital combinations; and 3) value created will be used in the empirical chapters 5, 6 and 7 to classify emerging themes. For instance, all innovation activities reported in the interviews were grouped under the social innovation process. Similarly, all forms of capital used in the social innovation process were grouped under new resource/capital combinations. Finally, all forms of value reported were grouped under value creation. Thus, the framework acted as a template for analysing and writing case studies.

## **3.6 Chapter summary**

This chapter is based on a review of social entrepreneurship literature in order to identify the distinctiveness of social innovation. Firstly, in section 3.2, the concepts of social entrepreneurship and social innovation are presented. This section concluded that the introduction of new business models with an embedded social purpose represents social innovation within for-profit SEVs. Then, in section 3.3, a review of research on innovation within SEVs was conducted in order to identify gaps and provide a rationale for further empirical research on the social innovation process.

Thirdly, in section 3.4, the capital theories on innovation used to explain innovation in Chapter 2 were used to identify the distinguishing characteristics of social innovation. This section revealed three distinctive features of social innovation. First, social innovations develop in resource-constrained environments. In particular, SEVs lack access to financial capital and human capital for innovation. To overcome these constraints, SEVs combine existing resources, especially social capital, in innovative ways. The ambiguity associated with social value is identified as the main reason for resource constraints as, in the absence of clear financial incentives, it is difficult to attract investors (financial capital) and staff (human capital) for innovation. Finally, the end user is regarded as the final arbitrator of the social innovation as social innovations involve a particular segment of society (end user) and all or most of the benefits accrue to that same segment of society.

Finally, in section 3.5, the identified distinctive characteristics of social innovation were incorporated into the innovation framework from Chapter 2 to develop a new capital-based

framework for social innovation. The proposed framework for social innovation depicts how various forms of capital are recombined by entrepreneurial efforts to develop value-added products and services that meet the social needs of marginalised sections of society. In the empirical part of this study, this framework will be used to examine the social innovation process in three cases of SEVs from India.

## **Chapter 4: Methodology and Research Design**

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### **4.1 Introduction**

This chapter articulates the methodological approach of this research. This includes the epistemological and ontological position of the researcher in relation to the research agenda specified in Chapter 1.

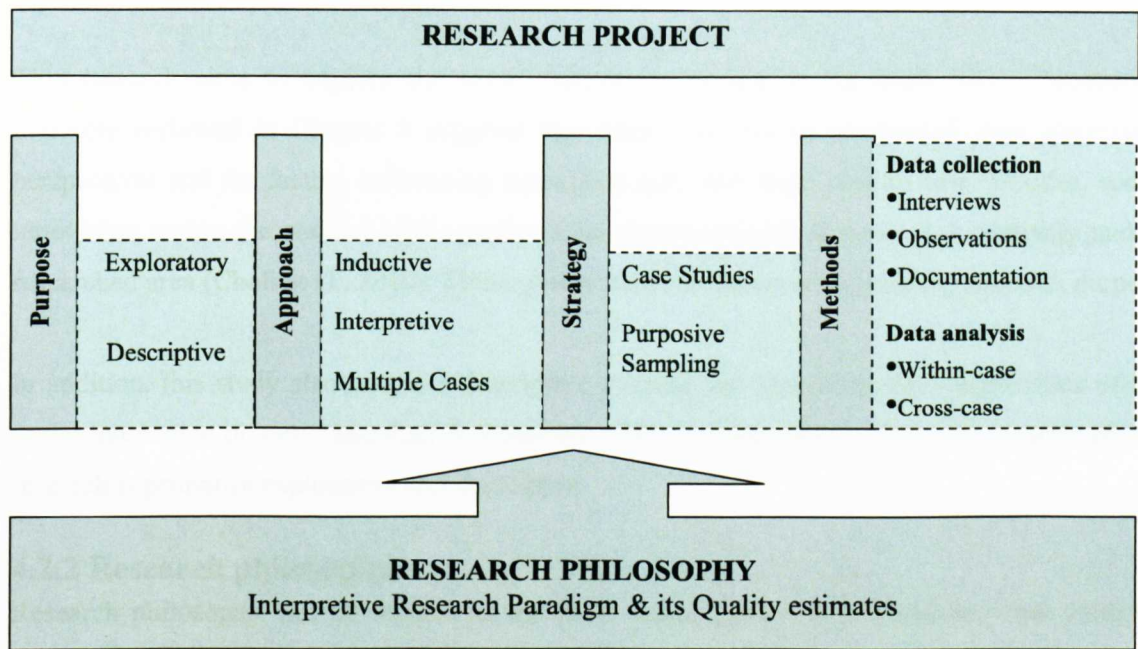
The structure of this chapter illustrates the development of thinking and decision making regarding the research methodology followed in this research study. Logically, this process began with fundamental decisions with regard to the research purpose. Here, the initial evaluation of the research questions enabled the author to place the research under the exploratory category. Then, a coherent line of argument was followed to ensure that the research philosophy, approach and research design were appropriate with regards to the initial research questions. These choices determined the data collection and analysis methods as well as the eventual findings of the study.

This chapter also explores the criteria for assessing the quality of the research within the interpretive paradigm. This includes examining the role of the researcher as well as the choice of participants in this study. The researcher also gives her reflections on her experience of the research process in this chapter. The advantages and limitations of multiple methods of data collection as well as analysis are examined at the end of the chapter.

### **4.2 Research design and methodology**

Research design refers to the logical sequence of steps undertaken by the researcher to address the research question. Yin (1994) describes it as the blueprint for research. Its key elements include the research's purpose, approach, strategy and data collection and data analysis methods (Saunders et al., 2007; Potter, 1996; Miles & Huberman, 1994). Figure 4.1 illustrates this study's research design. The lighter fields represent the specific approach, methods and techniques used in the study. The rest of this section describes each element of the research design.

Figure 4.1 This study’s research design



4.2.1 Research purpose

This study aims to explore the social innovation process within the context of for-profit social entrepreneurial ventures. The research problem is formulated for this thesis (as identified in Chapter 1 section 1.2) as:

*Exploring the social innovation process in for-profit SEVs*

Within the scope of this thesis’s research problem, additional research questions have been developed as:

- RQ1:** What are the phases of the social innovation process?
- RQ2:** How are various forms of capital combined in the innovation process to overcome resource constraints?

Bearing these research questions in mind, one of the first decisions to be made for this research was to determine its purpose. Though a study may serve more than a single purpose, it is usual that one predominates (Robson, 2002). As per Kumar (2005), the nature of a research question



can place a study into any of the following four categories: descriptive, exploratory, co-relational and explanatory.

This research aims to explore the social innovation process in for-profit SEVs. Innovation literature reviewed in Chapter 2 suggests that innovation can be interpreted from alternative perspectives and the factors influencing innovation may shift from case to case. Besides, social innovation within the context of for-profit social entrepreneurial ventures is a relatively under-researched area (Chell et al., 2010). These observations favoured an exploratory research purpose.

In addition, this study also adopts a descriptive purpose for illustrating the complexities of the social innovation process (Marshall & Rossman, 1999; Robson, 2002). Thus, the purpose of this research is primarily exploratory and descriptive.

#### **4.2.2 Research philosophy**

Research philosophy can be defined as the basic belief system or a worldview that guides a researcher (Burke, 2007; Guba & Lincoln, 1994). Figure 4.1 illustrates how the adopted research philosophy influences this research. In the social sciences, the choice of philosophical research paradigm is critical as it reflects the researcher's set of beliefs on the nature of social reality. In this section, first, the nature of social science research is detailed, as it is the broad domain under which organisational research on innovation falls.

##### **4.2.2.1 Nature of social reality and social science research**

Many argue that the application of research methods from the natural sciences in the study of the social world is flawed. This is because human action (unlike physical objects in the natural world) is inter-subjective, being created and reproduced through social interaction (Johnson et al., 2006). Elaborating this, Searle (1995) suggests that whereas reality in the physical world has an objective ontology, the social world has an ontologically subjective mode of existence. For instance, physical objects such as atoms exist and constitute physical reality whether or not we believe in their existence. In contrast, social reality is a product of human minds and does not have a separate mode of existence. In other words, the existence of social reality needs collective intentionality of two or more agents (Searle, 2005). This implies that multiple truths or realities can coexist as interpretations of the social world.

The inter-subjective nature of social reality has implications for social science research. First, as social reality is not inevitable, it need not have existed, or need not be as it is (Hacking, 1999).

Consequently, it is futile to attempt to derive universal laws (Giddens, 1982) in social science research in the same manner as it is possible in physical sciences (Gordon, 1991). In the social sciences, explanations of phenomenon are idiographic – explaining each individual on his or her own terms (Minichiello et al., 1990). Thus, research in the social sciences needs to reflect its contingent (contextual) nature.

This research examines social innovation, a phenomenon involving a number of actors involved in social interaction or a social reality. As seen in the above discussion, inter-subjectivity is an important aspect of research that involves social reality. This subjectivity must be addressed in some way so as to ensure that research is conducted with rigour and fairness. It is with this intention that the following section examines interpretivism, which is the adopted research philosophy in this thesis.

#### 4.2.2.2 Adopted research philosophy: interpretivism

Interpretivism at its core reflects the belief in the subjective understanding of the world with multiple truths (Carson et al., 2001; Burke, 2007). The key features of the interpretivist research paradigm are summarised in Table 4.1.

**Table 4.1 Interpretivist research paradigm**

|   | Interpretivist view/approach   |
|---|--|
| <b>Ontology</b><br>Basic beliefs<br>Nature of reality   | The world is socially constructed and subjective<br>Researcher and reality are inseparable<br>Research is driven by human interests                          |
| <b>Epistemology</b><br>Relationship between reality and researcher<br>The nature of knowledge | Try to understand what is happening within a context<br>Look at totality of each situation<br>Develop ideas inductively from data                            |
| <b>Methodology</b><br>Preferred research methods  | Using multiple methods to capture diverse views on phenomena<br>Mainly development of themes<br>Small samples studied in-depth<br>Mainly qualitative methods |

*Source:* Adapted from Weber (2004); Easterby-Smith et al. (1991); and Guba & Lincoln (1998).

Interpretive research recognises that research is value laden (Wendt, 1992) and aims to provide a deep insight into “the complex world of lived experience from the point of view of those who live

it” (Schwandt, 1994, p. 118). It therefore focuses on the subjective experiences, beliefs and values of the individuals involved (Darke et al., 1998; Robson, 2002). In doing so, interpretivism confronts many of the difficulties in conducting social science research. These are issues such as the intangibility of relationships, the inherent involvement of the researcher within the research domain and the dependence of outcomes on the researcher’s perspective, for example, the definition and design of the research question and so on (Clarke, 2000).

This study aims to explore the social innovation process within the context of for-profit SEVs for which the interpretive approach appears appropriate for several reasons. First, interpretive research allows one to capture the experiences of the actors involved in the social innovation process such as social entrepreneurs and target beneficiaries. The diversity of experiences of individuals is especially relevant for investigating innovation within SEVs as such ventures are characterised by multiple stakeholder involvement (Dorado, 2006; Austin et al., 2005). Using interpretive research methods such as semi-structured interviews the views and experiences of multiple stakeholders can be gathered and analysed to develop a deeper understanding of social innovations. Second, researchers have argued that interpretive research provides a holistic explanation of the social innovation phenomenon especially its context specificity. For instance, Tapsell and Woods (2010) found in their empirical study that historical and cultural contexts were important in understanding innovation within the context of social entrepreneurship. Similarly, Wolfe (1994) argued that the interpretive approach may provide new insights as the innovation process is complex and full of ambiguities, therefore, it is best to capture it through the experiences of the actors involved. Third, the interpretive approach has been used previously in innovation studies. For instance, in an empirical study conducted in Australia, Zhao (2005) used an interpretive, multiple case study approach to examine innovation in entrepreneurial ventures by interviewing senior management. Chell (2007) argues that an interpretive approach is likely to develop our understanding of the social entrepreneurship practice given its context specific nature. As this study aims to explore social innovation within the context of SEVs, this is another reason for the interpretive approach being appropriate for this study.

The underlying ontological assumption of interpretive research is that social reality is specifically constructed by humans through their actions and interaction (Orlikowski & Baroudi, 1991). Instead of a single, objective world, an interpretive researcher sees a world bounded by time and a specific context (Andrade, 2009). The interpretive researcher’s epistemological assumption is that findings are literally constructed as the research proceeds (Guba & Lincoln, 1991). Further,

such research explicitly recognises “how practices and meanings are formed and informed by the language and tacit norms shared by humans working towards some shared goal” (Orlikowski & Baroudi, 1991, p. 14). In summary, interpretivist researchers recognise that they represent their version of reality and not the universal truth, which they often think does not exist. In the next section, the research approach is detailed.

#### **4.2.3 Research approach**

The choice of the research approach influences the whole research design. Some researchers suggest that interpretive studies such as this research tend to be inductive (e.g., Easterby-Smith et al., 1991). In particular, for interpretive research it could be adequate to balance both inductive and deductive reasoning as suggested by Carson et al. (2001). This is because a purely inductive approach means literally starting from scratch (Perry, 1998) without consideration of existing theory (Carson et al., 2001). At the other extreme, the deductive researcher may not develop new or useful theory. However, this study does not agree with these arguments. An inductive approach does not imply that a study disregards prior theory. As Saunders et al. (2007) argue, qualitative researchers who use an inductive approach do not jump into a subject area without a competent level of knowledge about that area.

This research adopts an inductive approach as suggested by Collis and Hussey (2003) and Locke (2007). Specifically, the author’s approach was to use extant innovation theory to develop an integrated framework for innovation that has been used in the thesis as a sensitising device (Klein & Myers, 1999). In essence, this innovation framework represents key assumptions that guided this research study and assisted in the data collection process. In line with the interpretive research philosophy of this research, this theoretical framework is not to be seen as a rigid set of premises (Miles & Huberman, 1994; Walsham, 1995a; 1995b). Further, the relevance of a preliminary literature review in an interpretive case study approach is determined by the emergent theory and not vice versa (Klein & Myers, 1999). The innovation framework developed in this study is used to inductively build social innovation theory from multiple-case studies of for-profit SEVs. An inductive approach is suitable for theory building that typically answers research questions particularly well in unexplored research areas (Edmondson & McManus, 2007), making it appropriate for examining innovation within the context of SEVs. Thus, this thesis adopts an inductive approach to theory building while relying on prior theory on innovation for guidance (a somewhat less stringent deductive approach).

Based on prior theoretical knowledge gained from critical reviews of innovation and social entrepreneurship literature, a few assumptions were made at the initial stages of this research study. For example, it was assumed that innovation was a defining characteristic of social entrepreneurship. If a genuine mix of deductive and inductive approaches was applied in this study, then the project's starting point would have been the formulation of hypotheses and their subsequent testing in due course of the study (Blaikie, 1993). Further, data collection aiming to verify or falsify these hypotheses would have enabled broader generalisation (Carson et al., 2001; Robson, 1993) but this was not the focus of this study. This study aims to gain a thorough understanding of the experiences of individuals involved in the social innovation process. Due to the exploratory purpose of this research, an open-ended, inductive approach as put forward by Locke (2007) and Eisenhardt (1991) was adopted. As per this approach, detailed information about the phenomenon being investigated (social innovation) needed to be collected first before theory building could be commenced. Moreover, the inductive approach requires small samples for gaining an in-depth understanding of the phenomenon under study in contrast to the large samples needed for statistical generalisations in the deductive approach.

The exploratory nature of this study favours a qualitative research approach as it is well suited for exploration and investigation of complex human behaviour and for generating an in-depth understanding of a concept (such as social innovation) instead of measuring or quantifying a problem as favoured in a quantitative approach (Baker, 2001; Zikmund, 2000). Moreover, qualitative data is contextual and rich as it involves building a close relationship and dialogue between the researcher and the subjects (Denzin & Lincoln, 2000). Finally, such research generates a deeper social understanding and is flexible enough to incorporate unexpected issues that might emerge (Kvale, 1996). These characteristics of qualitative research make it especially suitable for this study. In summary, the present research is an interpretive, qualitative and inductive study, which is suitable to build theory that provides new insights into the social innovation process.

#### **4.2.4 Research strategy**

Research strategy refers to the process used to collect empirical data in a research study and is influenced by the goals of the researcher and the nature of the research topic (Benbasat, 1987). Following Yin (2003), the nature of this study's research questions suggested that alternatives in this regard were: case study, interviews and ethnography. Of these strategies, the case study was found to be the most suitable for interpretive research as detailed in the rest of this section.

#### 4.2.4.1 Case study

A case study is an empirical enquiry that is used to investigate a phenomenon within its everyday context (Yin, 1981a; 1981b). There are several reasons for selecting the case study research strategy in this research as summarised in Table 4.2. First, case studies are particularly suitable for research in areas where theory is in its early, formative stages (Eisenhardt, 1989) enabling one to build theory inductively (Benbasat et al., 1987; Eisenhardt et al, 2007). This is the case for social innovations, which remains an under-researched area (Chell et al., 2010). Second, it is possible to conduct case studies using an *interpretive* approach enabling one to examine a social phenomenon like social innovation in its natural settings (Feagin et al., 1991). Third, multiple data sources can be integrated in case studies such as semi-structured interviews and observations alongside secondary data (Yin, 2003). This makes case studies more attractive for small sample studies where the complexity of the unit is studied intensively as is the case with social innovation. Fourth, case studies are appropriate for collecting a diversity of views and experiences of actors involved in a phenomenon. This makes case study strategy appropriate for research on social entrepreneurship where the experiences of multiple stakeholders are crucial for the understanding of the social innovation phenomenon (Austin et al., 2006). Fifth, case study design is flexible making it suitable for exploratory, inductive research such as this study as it allows one to incorporate changes in the research site selection or choice of data collection methods (Yin, 2003).

Case studies are also suitable in cases where the researcher does not wish to exercise control. Then, a case study researcher does not need to have *a priori* knowledge of what the variables of interest will be at the start of a research project (Benbasat, 1987). This makes case research suitable for investigating social innovations as we know little about what factors hinder or enable a social innovation (Austin et al., 2006). Further, case study research enables one to investigate a contemporary phenomenon (Eisenhardt & Graebner, 2007) such as social entrepreneurship practice. Finally, researchers have deployed the case study method to build theory inductively in social innovation studies. For instance, multiple case studies were used by Alvord et al. (2006) to investigate social innovations.

**Table 4.2 Justification of selecting the case study method**

*Source:* Adapted from Benbasat (1987).

The case study research method has its own set of critics. Flyvbjerg (2006) argues that critics such as Diamond (1996) misunderstand or over simplify the nature of case research. One of the most frequent criticisms of case study research is that its results are not widely applicable to real life or they lack statistical generalisation (Tellis, 1997). This criticism is refuted by Yin (1984) who states that case studies involve analytic (and not statistical) generalisation wherein previously developed theory is used as a template against which to compare the empirical results of the case study. The misunderstanding arises when some assume that single case studies or small samples can be used for statistical generalisation. Stake (1995) suggests that the case study approach is based on naturalistic generalisation that is more intuitive and empirically grounded. Moreover, reservations about the generalisation from case studies can be minimised by the strategic selection of cases (Ragin, 1992; Rosch, 1978).

It is imperative to point out here that case studies are also suitable for identifying black swans or a unique, deviant case because of their in-depth approach (Flyvbjerg, 2006). A unique or deviant case is intriguing as it is characterised by rare qualities (Eisenhardt, 1989b) that can stimulate further exploration leading to the development of new lines of enquiry. For instance, in a recent paper, Tracey and Jarvis (2007) conducted an in-depth case study on Aspire, one of the first social franchises in the UK, which was established in the 1990s with an aim of providing employment to the homeless. Aspire then pursued franchising as a growth strategy but this later collapsed. Thus, the case provided a unique opportunity to gain valuable insights into a failing network of organisations and its publication in a leading entrepreneurship journal stimulated social franchising research.

Another misunderstanding about case research is that the method has a bias towards making verifications that confirm the researcher's preconceived notions (Flyvbjerg, 2006). However, researchers using in-depth case studies have reported that their preconceived views, assumptions, concepts and hypotheses were wrong and that the case data had compelled them to make revisions (e.g., Wieviorka, 1992; Flyvbjerg, 2001). More importantly, subjectivism and bias towards verification applies to all methods not just case study and other qualitative methods. Having established the rationale for the study, in the next section the design of the case study is examined.

#### **4.2.4.2 Case study designing process**

Following the methodology suggested by Yin (1984) and Eisenhardt (1989), this section details the procedures involved in case study design for this study.



### **Stage 1: Getting Started**

The initial stage of the research process involves defining the focus of the research. This involves considering several issues such as reviewing academic/practitioner literature, discussions with academics and practitioners as well as recognising the motivation of the researcher. The first activity in this stage as per Eisenhardt (1989) is to “have an initial definition of the research question, in at least broad terms” (p. 536) so as to provide a clear focus for the research.

To address the initial research questions, the author critically reviewed innovation and social entrepreneurship literature in order to specify some potentially important themes to help shape the initial research design (Eisenhardt, 1989). Based on this, a theoretical framework on social innovation was developed, which was then used to conduct a small, pilot study.

### **Stage 2: Selection of Cases**

Case selection is the second stage of theory-building case research. It primarily involves specifying the population or sampling. In line with the exploratory nature of the present study, a decision was made to conduct a pilot study.

#### **Pilot study**

Before sampling commenced, the author decided to conduct a small, exploratory pilot study that could enable her to improve the research design. A pilot study, as per Yin, is the “final preparation for data collection” (1994, p. 74). It helps establish better data collection procedures; more specifically, the sort of data to collect, where to find it, and which data collection methods to use. Further, the experience gained from a pilot study about the organisations and sector-specific issues can help to reframe the research questions.

In general, convenience, access and geographic proximity are the main criteria for selecting the pilot case as it allows for a less structured and more prolonged relationship to develop between the interviewees and the researcher (Yin, 2003). In the present study, proximity and access were the main reason for selecting the pilot case. The interview guide that developed following the literature review was piloted with an SEV called The Connectives, a Manchester-based partnership. The firm is a partnership of social entrepreneurs who provide advice and support to social enterprises in the UK and overseas, which includes mentoring other social entrepreneurs. The views of two of the social entrepreneurs – their associate partner in India, a commercial entrepreneur – and one of their clients, a social entrepreneur, were gathered. The findings of the

pilot study informed the interview guide used in the main study. It helped the researcher to add questions about issues that had not been considered. A brief of the pilot study is provided in Appendix D.

During the visits, both formal interviews and informal discussions were carried out with two social entrepreneurs (partners in the firm), their associate (a commercial entrepreneur) and a mentored social entrepreneur in India. The nature of business in social enterprises and innovation practices was discussed. These discussions were useful in formulating business-specific questions that would help gain insights into innovation-related activities in SEVs (see Appendix D). Analysis of data from the pilot study led to amendments to the initial interview guide including the addition of a number of questions. Overall, the research activities conducted during the initial case visit assisted in making decisions about the kind of social enterprises to study, the kind of data to collect, where to find it, and which data collection methods to use. Appendix D illustrates how analysis of the pilot study led to modification of the interview questions. For instance, questions were simplified and different interview guides were prepared for each type of informant.

### **Purposive sampling**

In line with an inductive, theory-building approach advocated by Eisenhardt (1989) and Yin (2001), a multiple case study design was selected. This choice was based on the advantages of multiple case studies over a single case study. Multiple case studies typically provide a stronger base for theory building (Yin, 1994). Second, multiple case studies aid cross-case analysis (Yin, 2003). Thus, it was decided to choose multiple cases of SEVs as the research sample.

Case selection is an important element of the case study approach. For this study, the purposive sampling method is used in order to enable the replication logic for the cases (Yin, 1994). This involves the researcher subjectively selecting cases that are well suited for replication or extension of theory (Eisenhardt & Graebener, 2007) on social innovation. Following the pilot study, the researcher developed an overall understanding of SEVs, their organisational structure and innovation activities. The analysis of the pilot study data combined with the literature review led to the development of case selection criteria.

First, a decision was made to select organisations from a population of for-profit SEVs in the UK and India. The SEVs were identified as those with a clear social mission benefiting marginalised

groups in society (adopted from Alvord et al., 2004). The innovativeness of an SEV was determined through external recognitions received such as innovation accolades from government or peer networks. Though statistical information on innovation in SEVs is lacking, it is apparent that the for-profit SEVs rely on income generation activities for sustainability as emphasised by Dorado (2006) and these ventures are likely to face similar pressures to commercial entrepreneurial ventures. Thus, this study focuses on innovation within a subset of SEVs – the for-profit SEVs – as this would allow for comparison with existing literature on commercial enterprises.

During the pilot study (Appendix D), it was noted that social entrepreneurs engaged their informal networks and target beneficiaries in innovation activities. This confirmed claims made in previous research that social entrepreneurship is characterised by greater stakeholder involvement (Austin et al., 2006). Thus, a decision was made that the field study would gather views of multiple stakeholders involved in the innovation, that is, the social entrepreneurs, employees, their partners/partnering organisations and beneficiaries.

Another implication of the pilot case study was that the effect of organisational factors such as an organisation's size and age on the development and implementation of a social innovation. For this, it was decided that well-established SEVs would be selected (defined by the author as having existed for nearly ten years) in order to capture historical information on innovation. Further, the impact of a social innovation on its target beneficiaries can be captured over a longer period of time. It was also decided to avoid small-sized SEVs (size may vary depending on the sector) so that appropriate information on innovation would be available and innovation practices would be fairly established. The pilot study was conducted on a small consultancy firm in which formalisation of innovation practices was non-existent. Eventually, four cases, that is, 1 pilot and 3 main case studies, were carried out for this research as summarised in Table 4.3.

Access was gained in each organisation through the organisational gatekeeper. It was relatively easy to gain access and recruit participants once the gatekeeper had given the consent. In gaining access, the researcher's association with Oxford Brookes University brought certain advantages, including a good reputation in the social enterprise sector, and practitioners were eager to provide access in order to learn from practices in the sector.

**Table 4.3 Overview of case organisations**

| <b>Case</b>     | <b>Business</b>                               | <b>History</b> | <b>Social mission</b>   | <b>Location</b> | <b>Size</b>                       | <b>Gatekeeper</b>           |
|-----------------|---|----------------|---|-----------------|-----------------------------------|-----------------------------|
| The Connectives | tancyConsul                                   | 2005           | To invest time, money and intellectual time to develop partnerships that deliver breakthrough sustainable solutions with social, commercial and environmental impact. | Manchester      | Partnership of 3                  | Founder entrepreneur        |
| Lijjat          | Cottage industry – fast moving goods          | 1959           | Provide self-employment to poor, urban women.   | Mumbai          | 42,000 sister members             | Administrative head         |
| Mahiti          | ICT services for social-purpose organisations | 2002           | Use open source software to increase access to ICT.   | Bangalore       | 53 IT professionals               | Founder social entrepreneur |
| Aavishkaar      | Social venture capital                        | 2002           | Supports socially and environmentally relevant innovations.   | Mumbai          | 12 investment/ portfolio managers | Founder social entrepreneur |

### **Stage 3: Crafting Research Instruments and Protocols**

In designing the case protocols, the recommendations of Yin (1984) were used. The rest of the section details these elements as applied in the study.

#### **Identifying the unit of analysis**

Prior to searching for research sites, the appropriate unit of analysis for the research needs to be determined (Benbasat et al., (1987). For this study, the organisation was identified as the unit of analysis and a similar approach has been followed in extant studies on innovations in social entrepreneurship (Alvord et al., 2004; Mair & Marti, 2005).

#### **Site selection**

The researcher used the criteria put forward by Yin (1994) for selecting potential sites. First, sites where similar results are predicted are selected for literal replication. Second, sites may be chosen for theoretical replication where contradictory results are predicted. Through careful site selection, the researcher can extend and revise the initial propositions of the study. In this study, the site selection was guided by selection criteria and theoretical replication.

In order to identify potential cases in the UK, the researcher attended conferences on social entrepreneurship at Oxford and Liverpool Universities. These potential cases were then evaluated using the selection criteria and efforts were made to gain access. For identifying potential cases in India, the researcher reviewed the online profiles of Ashoka Fellows – social entrepreneurs who were awarded fellowships for innovativeness by the global social venture network, Ashoka. Following this, a few fellows were contacted by e-mail to gain access for the research. In parallel, the author applied for ethics approval for the research from Oxford Brookes Research Ethics Committee. Once an approval was obtained, access to four SEVs was confirmed and a study plan was negotiated with the gatekeepers. Finally, one for-profit SEV based in Manchester, UK, was selected for the pilot study and three for-profit SEVs were selected in India.

### **Ethical considerations**

An ethics form covering issues of confidentiality, privacy of information and other associated matters was submitted to the Research Ethics Committee of Oxford Brookes University. The committee gave approval to proceed with the research in 2009. The researcher followed the Ethics Committee guidelines and took all ethical considerations into account when approaching the research participants by maintaining confidentiality at all stages of the research. The emphasis on ethics was particularly important during the data collection stage, which enabled the participants to freely share their insights without fear or prejudice. These considerations allowed the researcher to obtain good-quality interview data as per the planned research protocol.

### **Gaining access**

Gaining access is a fundamental activity for conducting fieldwork in qualitative studies. The researcher's success in gaining access to organisations and individuals influences the nature and quality of data collected (Shenton & Hayter, 2004). At this stage, one is likely to face a number of hurdles (Patton, 2002). Both, formal or informal means can be used to gain access to organisations (Laurilla, 1997). First, gatekeepers can be identified in an organisation as the individuals who provide and facilitate access for the researcher (Burgess, 1984; Gummesson, 2000). In this study, the author was able to gain access to each organisation through a gatekeeper, who, in most cases, was the social entrepreneur(s) themselves and who can also be described as key informants (Okumus et al., 2007). First, the social entrepreneurs were contacted by e-mail or telephone and briefed on the research study. Following the receipt of their consent, the author approached the gatekeeper to identify other potential participants who could provide information on the social innovation being investigated. Thus, a snowball technique of sampling was used to identify research participants in each SEV (Burton, 2000). Second, to persuade individual

informants in the organisations to contribute data through interviews (Shenton & Hayter, 2004), one needs to develop rapport slowly (Pitts & Miller-Day, 2007). For this, the author paid introductory visits to the organisations prior to conducting interviews. She offered details of the proposed research to participants (Appendix B) and obtained their consent.

The gatekeepers in each organisation initially identified the potential participants for inclusion in the sample. These participants were categorised into internal participants if they worked for the SEV or external participants if they were partners, clients or associates. The snowball technique was beneficial in gaining access to key informants both within and outside the organisation because “once contact is made with one member of a network, that person can be asked to identify other members and their relationships (Blaikie, 2000, p. 206).

The researcher also followed a phased entry to the organisation, especially in the case of the UK-based SEV. For this, the researcher attended public seminars and conferences where speakers from the organisations were in attendance. This was purposefully done to ensure approaching the speaker directly and requesting a meeting to discuss the proposed research. In the meeting, details about the research project were provided with an offer of a formal or informal presentation to potential informants. Also, the researcher specified at such meetings that she agreed to share her findings with the organisations and would make available any papers that result from the research study. The researcher also took up any invitation to attend meetings in the organisation.

For the Indian SEVs, the author sent introductory e-mails to social entrepreneurs from the online directory of Ashoka Fellows available from Ashoka’s website. In the introductory e-mail, an overview of the research project, participant information, and contact details of the author were provided. The researcher received replies from all the social entrepreneurs stating their willingness to participate in the research. Thus, the author tried to follow a strategy of openness as suggested by Shenton and Hayter (2004). Finally, the researcher was receptive to suggestions made by the gatekeepers and informants with regard to the inclusion of key individuals for the research study. As this study follows an interpretive approach, key informants from various functions and hierarchies were interviewed in order to get a diversity of perspectives. Both internal and external actors were included. These included the social entrepreneurs, clients, employees and partners involved in innovation.

### **Designing the interview guide**

The initial interview guide was designed so that questions could cover all the aspects mentioned in the social innovation framework (Figure 3.1). An interview guide is a simple listing of general areas to cover with each informant (Taylor & Bogdan, 1984). It guides the researcher on phrasing the questions and when to ask them during the interview situation. This schedule/guide was piloted and amended during the pilot study and reviewed by academic colleagues at Oxford Brookes University. For the initial guide (with changes) see Appendix D.

Following the pilot study, amendments were made to the interview guide along several points. First, semi-structured questions for the interviews were improved; in particular, the terminology and style of questions were revised to make it easier for the respondent to understand them. For instance, in Appendix D, question 1 was simplified as; how did you come up with the idea to set up XYZ? Then, separate interview guides were prepared for each type of stakeholder: social entrepreneur(s), employees, associates and beneficiaries, as shown in Appendix E. In essence, the questions were designed so that participants could relate them to their experiences or organisational activities that contribute to the social innovation process. Further, as the interviews were to be carried out at different hierarchical levels within the organisation as well as with informants outside the organisation, such as clients and associates, interview questions were designed in order to allow for ease of modification and adaptation. Some questions were also revised and improved during the data collection process (Eisenhardt, 1989).

The interview guide/schedule for each type of informant comprised three phases. The *introductory* phase which included a short briefing about the researcher's background, the aim of the research project, purpose of the interview, the confidentiality of the research in general and the interview in particular and finally a request for permission to use a tape recorder. In addition, general questions about the informant's background, role and experience were also asked. The *development* phase of the interview process is the main section, which included the main body of questions about the innovation practices of the organisations and the respondent's role in the innovation process. The final phase of the interview is primarily the *closing phase* where the informants were asked whether there was anything else they wanted to add. This should reveal any aspect of their experiences on innovation that had not been covered in this interview and/or discuss any further clarification they would like to discuss. Finally, the informants were asked to recommend or supply relevant business documents or other key informants for the researcher to contact who they believed would contribute to the research.

### **Interview guide questions: rationale**

As presented in Appendix E, each interview question was asked to cover the three aspects of the social innovation framework developed following literature reviews in Chapter 3 (Figure 3.1): social innovation process, resource/capital combinations and value created. To understand the initiation phase of the social innovation process, the social entrepreneur was asked: how did you come up with the idea to set up XYZ? Then they were asked: tell me the story of how you grew/scaled your enterprise? What were the important events? How did they unfold? These questions were asked to understand the development and scaling phases of the social innovation and identify its key activities. To probe these activities further, social intrapreneurs were asked the following questions: are you involved in activities that contribute to the development of new services? Further, can you describe a new service launched, and its key activities? Finally, they were asked: if you had an innovative idea, how would you take it further in your organisation?

To understand the uniqueness of the social innovation, founders were asked: how do you think XYZ makes a difference? What is unique about the services/organisation? This was done to gather the actors' views on what constitutes innovation and to determine whether the SEV's business model was perceived as a novelty by the social entrepreneur as suggested in the literature review on social innovation.

To determine capital combinations the following questions were asked: how do you encourage creativity in your organisation (social entrepreneur)? This question could provide answers as to how the SEV invested in its human capital and social capital. Then, the question: how did you come up with the idea of setting up XYZ? The social entrepreneurs responded by reporting difficulties they faced in finding support for their ideas including lack of financial capital. Then, social intrapreneurs were asked: what attracted you to this work? This would help determine the SEV's human capital in terms of generic and industry specific forms. Further, social intrapreneurs were probed as to whether training was provided. This helped to determine investments in human capital. To determine the role of social capital, the external informants were asked to describe their interaction or the type of collaboration with XYZ. This helped to identify the role of *external* social capital. To determine the role of *internal* social capital, questions posed to social intrapreneurs were: who is involved in developing a new service? Or, to the founder: how do you encourage creativity? These responses were analysed to examine the nature of social capital within cross-functional teams.



To determine the value created by the SEV from the social innovation, the social entrepreneur was asked to determine: what led to your success? Further, the question: what is unique about the services or products offered by your organisation? These questions helped determine the economic or social value generated from the social innovation as perceived by the social entrepreneur. Similarly, the beneficiary was asked: what is the nature of your association or benefits of XYZ services? These questions enabled one to capture the social value of the innovation as perceived by the beneficiary or associate of the SEV. In summary, questions included in the interview guide were developed as per key themes in the social innovation framework.

#### **Stage 4: Entering the Field**

Following the pilot study and ethics approval, the main fieldwork commenced during the summer of 2009. An initial visit was made to each organisation where a study plan was negotiated with the gatekeeper. This formed the basis for gathering data. The rest of the section outlines the data collection methods used in this study.

#### **Data collection methods**

In case research, Yin (2001) identifies several sources of evidence for: documentation, archival records, interviews, direct observation and physical artefacts. In the present study, multiple methods for collecting data were used and each method is detailed next.

#### **Documentation and archival records**

Documents were collected throughout the research process. Documents supplied by the informants were: customer or investor surveys, newspaper articles, corporate videos, published teaching case studies, practitioner reports, leaflets, brochures, in-house newsletters and annual financial reports. The researcher did not face any bureaucratic obstacles during the process of collecting documents. In addition, the organisational websites provided a lot of background information on the case organisations. Another source of information was the organisational websites of the partner organisations or government bodies or industry networks that had reported on the organisation.

#### **Semi-structured interviews**

In this study, semi-structured interviews were used. King (1994) elaborates that in semi-structured interviews, the researcher will have a list of themes/questions to be covered, although these may vary from one interview to the next and the interviewee has a great deal of leeway in their response. For the present study, structured interviews were ruled out as it was anticipated

that organisational contexts would vary from one interview to another and such interviews impede the flow of conversation (Saunders et al., 2007). Conversely, unstructured interviews would be unlikely to yield sufficient data about key themes or points of interest.

Semi-structured interviews were selected as the preferred option due to a number of reasons. First, the qualitative and exploratory nature of this study meant that semi-structured interviews would enable one to gather a diversity of participant views and probe themes that emerged during the course of the interview (Wass & Wells, 1994; Kvale, 1996). For instance, if the social entrepreneur emphasised the importance of social networks, probing questions on the types of network could be raised by the author. Second, the questions to be posed may be regarded as complex and require further explanation by the interviewer (for instance, the definition of social innovation as identifying the uniqueness of the organisation). Third, the order and logic of questions may need to be varied as per the flow of the conversation or questions may need to be omitted according to the organisational context. This requires a flexible approach to interviewing which favours the semi-structured interview (Easterby Smith et al., 1991). However, the nature of the questions and the ensuing discussion means that semi-structured interviews should be recorded by note taking or ideally by tape recording.

There are a few drawbacks of using semi-structured interviews for qualitative data collection. First, the order in which interviewees are interviewed may influence the emphasis on emerging issues or themes. To mitigate this, a top down approach to interviewing was adopted so that first the highest ranking key informant was interviewed to enable the researcher to understand the business objectives and elements of the organisational structure and culture that potentially facilitated innovation. Typically, the founder social entrepreneur was interviewed first and he/she provided the list of potential informants. Then, interviewees were interviewed in hierarchical order to ensure a top down approach that enabled collection of data regarding the social innovation from a broad perspective to a more specific functional perspective. In addition, care was taken to ensure that all interviewees understood the question in the same way, that is, for stimulus equivalence (Hussey & Hussey, 1997). Second, confidentiality is an issue with data collection. To overcome this barrier, the author ensured that all the interviewees provided their consent (on whether to divulge their names and position) prior to the commencement of the interview. In most of the cases, the interviewees wished to reveal their identities in line with claims in the literature that social entrepreneurship was characterised by a culture of openness and wider stakeholder involvement (e.g., Austin et al., 2006). Third, scholars claim that the

interviewer is likely to influence the interviewee's response especially if there is an element of class, race or gender (Hussey & Hussey, 1997). It is impossible to ascertain such bias prior to the interview. It may be possible to detect such bias during the interview but then there is little one can do to eliminate this barrier except for conducting an interview professionally and adhering to ethical considerations. Finally, events prior to the interview, such as a recent promotion, may influence the response of the interviewee (Hussey & Hussey, 1997). It is possible to assimilate the atmosphere and interviewee's working environment by arriving a few minutes early. This also helps both the interviewer and the interviewee to relax and build rapport.

Despite a few disadvantages as indicated above, the semi-structured interview was identified as the most appropriate method of data collection for this research as it enables one to ask complex questions and capture an interviewee's subjective views on the subject under investigation.

### **Direct observation**

In the present study, whenever possible, direct observations were also used to supplement interview data. This was considered essential for two reasons. First, this enabled the author to gain new insights during the research process. Second, these observations could be used to check that the data collected from other sources accurately reflected the real time practice of the participants. Direct observation was made through the field visit in a less formal manner (Yin, 1994) rather than that advocated by ethnographers. For instance, an observation that the organisation had an open plan office where senior management sat amidst employees indicated an organisational culture that was informal and relaxed. Previous studies on innovation suggest that open cultures facilitate innovation (Kanter, 1999). Similarly, the location of the social entrepreneur's office was an indicator of the degree of control he/she applied through personal presence. Further, the manner in which the social entrepreneur addressed his subordinates or colleagues was also noted. These observations confirmed whether the organisational culture could be regarded as open, that is, characterised by a more or less flat structure with few hierarchies and an open flow of communication that facilitates innovation.

As the researcher spent on average three days in each case, the opportunity to participate in the everyday routine of the organisation's employees and management enabled the observation of several issues: in particular, the communication between staff and managers, the organisational culture, and their way of handling problems. The researcher observed some of the meetings between managers, which gave a good insight into the decision making practices of the case organisations. However, it is worthwhile to note that the researcher was an observer of these

settings. The observation process did not require her participation and, therefore, her interpretations and actions were not objects of subsequent analysis. Thus, observations made in this study were aimed at providing the author with added contextual information for semi-structured interviews and no more.

### **Stage 5: Analysing the Data**

Qualitative data analysis can be defined as the related process of describing a phenomenon classifying and connecting these resultant concepts in order to come up with a fresh description (Day, 1993). However, data analysis of case study evidence is the most difficult and the least codified aspect of case study research (Yin, 1994). The analysis process is largely determined by the nature of the research problem being investigated and the philosophical stance undertaken in the study (Easterby-Smith et al., 1991). Further, the data analysis strategy to be followed by a qualitative researcher must be such that one does not die of data asphyxiation (Pettigrew, 1988) nor leap to quick conclusions (Nisbett & Ross, 1980; Miles & Huberman, 1994). In this study, an inductive and interpretive approach was followed, which encouraged the researcher to have an open mind to examine the innovation process in each case organisation. Therefore, the analysis of field data was not constrained by *a priori* constructs. Instead, themes derived from the social innovation framework developed in Chapter 3 (Figure 3.1) formed the main themes under which emerging themes were placed as sub-themes.

### **Integrating data collection with analysis**

A major challenge faced by the qualitative researcher is what to make from the available interview data and what truth does it reveal. Scholars claim that data analysis is an intellectually demanding task (Tesch, 1990) and that there is no single right way to analyse qualitative data. In essence, the analysis process involves data reduction, display, conclusion and verification (Miles & Huberman, 1994). Further, both Coffey and Atkinson (1996) and Miles and Huberman (1994) suggest that the analysis process in qualitative research should be integrated with data collection. In this study, the author regularly allocated time for transcription of interview data from digital audio recordings while conducting the field research. By converting recordings into textual data soon after conducting interviews, the author was able to achieve a better insight into the data. For instance, analysis of the first interview transcript by the author for case study 1 (L1) revealed that all the women members of the organisation performed the entrepreneurial function and each had a different entrepreneurial career path. This led the author to conduct interviews with women members across functional areas. This included women members elected as office bearers of the

management committee and those at the grassroots level who were regarded as veteran Lijjat sisters.

Further, while going through the transcriptions, the author was able to list missing or unclear information. This enabled her to plan or modify the content of upcoming interviews. In practice, the data analysis process started after the data collection process and continued all the way to the end. The simultaneous process of data collection and analysis helped to minimise the possibility of missing vital information, to seek clarification or missing information. Furthermore, conducting data analysis simultaneously with data collection allows the researcher to focus and identify the pattern of the study (Glesne, 1999). In interpretive terms, the author felt that the process of data analysis was like putting together a jigsaw puzzle by collecting information bit by bit to form a complete picture of the social innovation phenomenon.

### **Preparation for Data Analysis**

Before commencing data analysis, the researcher used field notes to record details of the data collection process, which helped to follow up and prepare the data for analysis in the later stages. As the data was collected from the case studies, the researcher transcribed the interviews and re-wrote the observation and documentation notes as soon as possible. This was important because capturing and reflecting the observed, verbal and non-verbal phenomenon is both easier and better when things are fresh in mind. Due to good access and easy travelling opportunities, the researcher had the chance to go back to the case study as soon as the transcriptions were complete. Transcribing a one-hour tape recorded session could take as long as ten hours in total. All data collected from each case was placed in separate files but in identical formats in order to establish uniformity among within-case and cross-case analysis.

The next activity in the data preparation stage was to get familiar with the data. This was a time-consuming process, as it requires reviewing all the data from the particular case. All the interview records were listened to several times and notes were taken about the impressions and intuitive feelings gained with regard to both the interviewee and the content of the interview. Possible interpretations and a few emerging themes were identified. Another dimension of this process was the re-reading of the interview transcripts and documentation collected several times in order to identify the themes (see Tables 4.4, 4.5 and 4.6 for an illustration of the coding process). This stage is important as it allows some initial thoughts to emerge, and enables the identification of interesting aspects of both the data collection process and the data itself.

### **Use of computer software to aid data analysis**

Since the 1980s, the use and availability of computer software applications for data analysis has gained popularity amongst qualitative researchers. It eliminates the conventional approach of sorting or stacking data through ways such as colour coding. For instance, NVivo software provides a number of facilities such as data management and tools to examine features and relationships in textual data. In essence, such software contains various tools that assist the qualitative researcher to develop theoretical ideas and test hypotheses. Such software can assist a researcher in his/her interpretation of textual data, which still remains the very foundation of qualitative data analysis (Gibbs, 2002).

The author initially used NVivo and received basic training in utilising the software at the University. However, she soon realised that computer assisted analytical methods using Microsoft Word and Excel were simpler and perhaps more effective. For instance, Microsoft Word provides options such as text search and colour coding. Similarly, Microsoft Excel can be used to categorise data according to themes or respondents. Many simple software programs provide basic tools for analytical assessment of textual data (Tesch, 1990; Weitzman & Miles, 1995). Thus, in this research study, Microsoft Windows programs were used extensively to aid analysis of collected data such as interview transcriptions and observation notes. This helped the author to identify recurring themes in transcripts and highlight high frequency words. Further, observation notes, as stated earlier, were only used to add to contextual information for semi-structured interview transcripts and no more.

### **Levels of data analysis: within and cross-case analysis**

The data analysis process in this study was done at two levels. The first level involved within-case analysis that is presented in Chapters 5, 6 and 7. This involved mainly descriptive analysis of the case study organisations (contexts) and the social innovation (the phenomenon) being investigated. In addition, the social innovation framework developed in Chapter 3 was used as a 'sensitising device' to aid analysis. The second step involved cross-case analysis, or the synthesis of the three empirical chapters, which is presented in Chapter 8.

### **Within-case analysis**

At this stage of a qualitative study, the researcher is confronted with voluminous data. Yin (1994) points out that data analysis of case study evidence is the most arduous task in case study research. Pettigrew (1988) cautions the qualitative researcher against death by data asphyxiation. Case study researchers generally confront this challenge by first conducting within-case analysis

that involves detailed case study write-ups for each site (Eisenhardt, 1989). These write-ups can be purely descriptive, where the aim is to help the researcher to organise enormous data systematically (Pettigrew, 1988; Gersick, 1988). This task is therefore central to the development of insights. However, there is no standard format for writing up within-case analysis in the literature. For instance, case researchers have used transcripts of team meetings (e.g., Gersick, 1988) and Leonard-Barton (1988) used tabular displays and graphs to illustrate case findings. In the absence of a standard procedure for analysis, Eisenhardt (1989) points out that the “overall idea is to become intimately familiar with each case as a stand alone entity” (p. 540). This allows the unique patterns of each case to emerge before attempting to generalise patterns through cross-case analysis.

In the present study, within-case analysis involved developing detailed descriptions of each case organisation, identifying the social innovation and its stages. The social innovation framework developed in Chapter 3 formed the template for writing up each case study in the present research. The author used a simple, historical approach to conducting event analysis (McWilliams & Siegel, 1997) in order to describe the social innovation process. This meant identifying the key events in the process from the collected data and then displaying them on a timeline. The researcher also made extensive use of matrices when writing up Chapters 5, 6, and 7.

### **Cross-case analysis**

Following the within-case analysis conducted in Chapter 5, 6, and 7, a cross-case analysis was conducted to identify common themes from across the cases to allow for analytical generalisation. Using within-case analysis in conjunction with cross-case analysis helps to avoid misinterpretation from the use of within-case analysis alone and adds a further interpretation of the data. It helps to establish the generalisability range of any resultant theory (Miles & Huberman, 1994). The components of cross-case analysis originated from previous stages of data analysis. In order to enhance the ability to handle both the contextually specific nature of single sites and the sense across the three case studies, an approach that embraces and builds on the data analysis methods and case reports structure, incorporated in the prior within-case analysis, was utilised.

Investigating the commonalities and differences between the innovation process in commercial entrepreneurial ventures (as highlighted in the literature review on innovation in Chapter 2) and for-profit SEVs is one level of analysis. The other analysis is the exploration of the consistency of occurrence of distinctive features of social innovation in all the three cases. Figure 4.2 presents

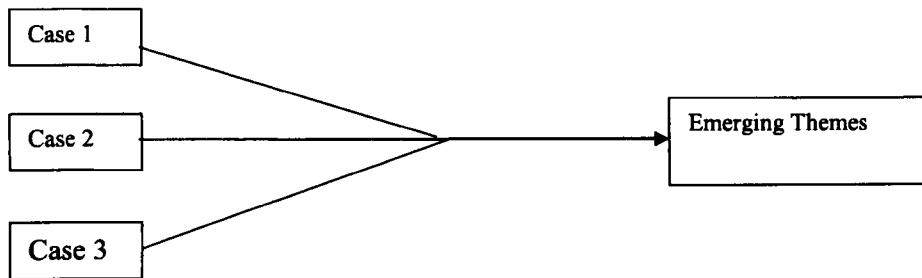
the stages of cross-case analysis. This analysis is undertaken manually, utilising worksheets set out in earlier analysis.

**Figure 4.2 Within-case and cross-case analysis**

#### Within-case analysis

#### Cross-case analysis

As per template derived from social innovation framework



#### Coding or identifying emerging themes

In order to reveal its meaning, qualitative data needs to be classified through the coding process. Coding is defined as the process of identifying and recording a distinct passage of text data with symbols, descriptive words or category names (Gibbs, 2002).

#### Coding of interview data

During the coding process, the responses from participants (from semi-structured interviews) were first categorised or coded as per *a priori* themes identified using the social innovation framework developed in Chapter 3. Bazley (2009) points out that there is no problem with using *a priori* themes in data analysis as long as they are recognised and declared. For example, Table 4.4 illustrates the unordered list of responses to the open-ended question addressed to founder entrepreneurs of social entrepreneurial ventures: How did you come up with the idea of setting up XYZ enterprise?

**Table 4.4 Unordered list of responses to the open-ended question addressed to founder social entrepreneur(s): How did you come up with the idea of setting up XYZ enterprise?**

| Participant response   |
|--|
| I got the idea while working for GIAN, a government initiative to support grassroots innovation. |
| The idea came to me when I worked as a social worker with NGOs.                                  |
| The idea is the brainchild of my ex-boss of a large NGO.   |
| The idea came to my co-founder when on a visit to rural India.                                   |
| The founder entrepreneurs recognised that this was a self-employment opportunity.                |



In this same manner, the responses for all the questions in the interview schedule were collected. Following this, the author categorised the responses as per *a priori* categories identified primarily from the social innovation framework. The same example is illustrated in Table 4.5.

In some instances, co-occurring codes or codes that partially or completely overlap were also identified. For instance, in Table 4.6, the responses of social entrepreneurs have been categorised using co-occurring codes as idea initiation and human capital of the social entrepreneur.

**Table 4.5 Categorisation of responses from social entrepreneurs: How did you come up with the idea of setting up XYZ enterprise?**

| Participant response   | A Priori themes   |
|--|---|
| I got the idea while working for GIAN, a government initiative to support grassroots innovation. | Idea initiation<br><br>(Co-occurring code: human capital of the social entrepreneur – prior industry experience.) |
| The idea came to me when I worked as a social worker with NGOs.                                  |   |
| The idea is the brainchild of my ex-boss of a large NGO.   |   |
| The idea came to my co-founder when on a visit to rural India.                                   |   |
| The founder entrepreneurs recognised that this was a self-employment opportunity.                |   |

**Table 4.6 Examples of coding data in interview transcripts**

| Original text in verbatim transcript<br>(Several quotations in verbatim transcript for each descriptive code) | Descriptive code<br>(Each quote suggests motives for sister members joining the organisation) | Interpretive code       |
|---|---|-------------------------|
| I am my own boss.   |   | Entrepreneurial mindset |
| This work allows me to earn an income while performing my familial responsibilities.                          |   |                         |
| I joined because, despite my lack of education, I had an opportunity to earn an income.                       |   |                         |
| Everyone is equal here.   |   |                         |

### **Data analysis strategies and methods adopted in the study**

The author used several strategies and methods to aid data analysis in this thesis, which are summarised in Table 4.7. In all, 11 different strategies were used to analyse different components and types of data so as to aid a rich description of each social innovation. In order of relevance and appropriateness, a specific data analysis strategy was selected by the author to analyse different aspects of a component of data. Having provided an overview of the multiple-data analysis strategies and methods deployed by the author in this thesis, the rest of the section describes each method briefly and provides examples of how they were used in practice.

#### **Analytical strategy 1: Low inference descriptors**

This involves presenting the descriptions phrased close to the participants' accounts. For instance in Chapter 5, section 5.2.3, the verbatim quote of Priti is reproduced to illustrate her perception of her own empowerment: *"My income was important for my family and it enabled me to send my children to University"* (L2).

#### **Analytical strategy 2: Reflexivity**

A reflexive approach involves the researcher being aware of key issues relating to the context. For instance, the researcher reflected on the cultural context of women's empowerment in a patriarchal society like India based on her knowledge of the subject (see section 5.2.3).

#### **Analytical strategy 3: Triangulation**

Triangulation involves cross checking information and findings using multiple methods and sources. For instance, in Chapter 5, the primary and secondary data sources such as prior case studies on the organisation and organisational websites are cited in text.

#### **Analytical strategy 4: Theory triangulation**

This involves using multiple theories to interpret and explain the data. For instance, in Chapter 5, Table 5.7, the case data is analysed using financial, human and social capital theories to interpret new resource combinations (or Schumpeterian innovation).

#### **Analytical strategy 5: Peer review**

In order to have a peer review of the research findings, the author presented her preliminary findings to researchers in the area of social entrepreneurship in several conferences in the UK such as BAM, 2009; ISBE, 2010; and the SIRC, 2010 conference at Oxford University.

**Table 4.7 Analytical strategies used in the study**

| <b>Strategy</b>                  | <b>Description</b>  | <b>Example from case studies</b>   |
|----------------------------------|---|--|
| <b>Low inference descriptors</b> | Descriptions phrased close to the participants' accounts.   | Use of verbatims in Chapter 5, Table 5.2.  |
| <b>Reflexivity</b>               | Involves awareness of key issues.   | Reflecting on cultural contexts in Chapter 5, section 5.2.3.   |
| <b>Triangulation</b>             | Cross checking information and findings by using multiple methods and sources.  | Use of interviews, observations and secondary sources to collect data.   |
| <b>Theory triangulation</b>      | Use of multiple theories to interpret and explain the data.   | Example: Table 5.7 the case data is analysed using financial, human and social capital theories to interpret new resource combinations.  |
| <b>Peer review</b>               | Discussion of researcher's interpretations and conclusions with others.   | Findings were presented at 3 conferences: SIRC, 2010; BAM, 2009 and ISBE, 2010.  |
| <b>Participant feedback</b>      | Discussion of researcher's interpretations and conclusions with participants for verification.                                  | The author sent drafts of case studies to the gatekeepers of each organisation.  |
| <b>Matrix analysis</b>           | An outline of generalised causation through a logical reasoning process, using matrices/diagrams to pictorially represent data. | The author extensively used matrices to analyse data in the empirical Chapter 5, Table 5.2.  |
| <b>Quasi statistics</b>          | Rough estimate of frequency of something mentioned.   | The author used this in Chapter 5 to conclude that the women members of the cooperative belonged to the same socio-economic group. This is because in all the 9 interviews held with women members they all mentioned that they were introduced to the organisation by their mothers, close relatives or neighbour.                              |
| <b>Event analysis</b>            | Tracing a phenomenon by finding the beginning and end of events.  | Figure 5.1 summarises the key events from the case data.   |
| <b>Content analysis</b>          | Analysing the content of textual data.  | Chapters 5, 6, and 7 are derived from content analysis.  |
| <b>Narrative analysis</b>        | Analysing the narratives of the informants.   | The author used narrative analysis in instances where informants used terms from regional languages of India. For instance, women members in Case Study 1 addressed each other as <i>ben</i> , a Gujarati term for sister. On careful analysis of the context this was construed as a parallel to the concept of sisterhood in feminist studies. |

### **Analytical strategy 6: Participant feedback**

This involves discussion of the researcher's interpretations and conclusions with participants for verification. For instance, the author sent drafts of case studies to gatekeepers of each case organisation for their comments. The gatekeepers read the draft case studies and mentioned any changes to the author in e-mails which were used to update case studies.

### **Analytical strategy 7: Matrix/Logical analysis**

This method involves presenting an outline of generalised causation through a logical reasoning process and using flow charts, diagrams and matrices to pictorially depict findings. Miles and Huberman (1994) depict several ways in which matrix analysis can be used and their suggestions were used extensively by the author in the empirical Chapters 5, 6, and 7 in this thesis. Matrix displays in these chapters were created by using Microsoft Word and form an extremely useful way of detecting patterns in data (Bazeley, 2009). For example, the mapping of the social innovation process in Figure 3.1 illustrates the use of matrix analysis.

### **Analytical Strategy 8: Quasi-statistics**

Quasi statistics were also used in some of the empirical chapters for data analysis. This essentially involves counting the number of times something is mentioned in field notes/interview transcripts as a rough estimate of frequency (LeCompte & Preissle, 1993). For instance, in Chapter 5, the observation that the sister members of the women's cooperative belonged to the same socio-economic group is based on a quasi-statistical approach by counting the number of times they mentioned that their neighbour or mother introduced them to the SEV in their accounts.

### **Analytical strategy 9: Event analysis**

In this approach, as mentioned in Erickson (1992), the emphasis is on finding precise beginnings and endings of events by finding specific boundaries and things that mark boundaries or events. In the empirical Chapters 5, 6, and 7 the evolution of the social innovation is traced using event analysis and drawing a timeline for the same. For instance, Figure 5.1, which traces the initiation, development and scaling of Lijjat's unique business model, is an example of event analysis conducted on a timeline.

### **Analytical strategy 10: Interpretive content analysis**

Content analysis has previously been defined as an objective, systematic, and quantitative method of describing the content of texts (Kassarjian, 1977). Content analysis was used to analyse the

textual data in the observations and interview transcripts to identify data that corresponded to the *a priori* themes determined by the social innovation framework or interview guide. Both basic and interpretive content analysis was used in this thesis, where the latter is specially designed for latent content analysis, in which researchers go beyond quantifying the most straightforward denotative elements in a text. It involves “an awareness of the subtleties of meaning of the data” (Strauss & Corbin, 1990, p. 41). For instance, the importance of the *Sarvodaya* ideology in the foundation of the SEV in Chapter 5 is based on the author’s awareness of the importance of this Gandhian ideology in the early years after India gained independence.

#### **Analytical strategy 11: Narrative analysis**

This method was used in this study to examine autobiographical accounts of social entrepreneurs or the impact of social innovation on beneficiaries (Reisman, 1993). For instance, in Chapter 5, boxes 1 and 2 represent autobiographical accounts of sister members of the women’s cooperative. These narrative accounts were analysed to discover the impact of the social innovation on each sister member as well as to establish how individual sister member’s human capital was developed.

#### **Stage 6: Enfolding literature and reaching closure**

This phase of the research aims to compare the emergent concepts, themes and relationships with extant literature. A broad range of literature was considered, not only materials included in the prior literature review (see Chapters 2 and 3), but also relevant additional and/or new sources. Identification of similar and contradicting issues between the emergent concepts and a broad range of literature is the main concern of the enfolding the literature section of the research. Presenting similar ideas by incorporating the literature and emergent concepts and themes permit the generation of theory with stronger validity, wider generalisability and higher conceptual levels (Eisenhardt, 1989). With the help of such comparisons, the underlying similarities between phenomena, normally not associated with each other, can be identified and related.

In order to increase the confidence in and sharpen the generalisability limits of the resulting theory, it is also essential to study conflicting material as well (Eisenhardt, 1989; Miles & Huberman, 1994). The conflicting results facilitate a more creative mode of thinking, leading to deeper insight into both the emergent theory and the literature.

At this stage, it is important to determine whether the theory development process may be considered complete (Yin, 1994). When it is believed that theoretical saturation has been reached, the process of iterating between theory and case data should stop. This indicates that any further iteration would render only minimal incremental improvement to the evolving theory (Eisenhardt, 1989). This will be achieved when the ideas and concepts are already established and no further contribution is made.

In this regard, Chapters 4 and 5 of this thesis, together with their associated Appendices, present an extensive and thorough data collection and analysis process. The enfolding literature and reaching closure allowed for an exploratory journey into the existing body of knowledge in the subject area and to have an analytical framework. The emergent theory of social innovation, however, is compared with the extant theories in the broader field of innovation research, entrepreneurship and social entrepreneurship. Similarities and contradictions were identified, recorded and connected across categories. Developed propositions played a key role in establishing relationships between a category, its concepts and phenomenon. These stages have formed the basis of the emergent theory.

### **4.3 Quality of the research**

In the present study, an interpretive approach has been adopted in support of Van de Ven and Rogers (1988) argument that innovation, being so uncertain and intricate, can best be understood from the point of view of the actors involved. However, the accuracy of data remains a challenge for such 'self-reported' (that is, the involved actors') interpretations on innovation. This implies that apart from being willing to reflect and share their motivations, experiences and actions in their account of the innovation process, research participants must possess the ability to do so. The quality and rigour of a research study can be evaluated using several criteria suggested in literature and by using terms such as validity, generalisability, replicability and reliability (Mason, 1996).

There is much debate in literature as to whether terms such as validity and reliability can be used to describe qualitative research. Researchers question whether these terms, originating in quantitative social science research, could be applied to evaluations of qualitative research (Kirk & Miller, 1986). For instance, scholars like Marshall and Rossman (1999) reject the applicability of these terms arguing that these terms correspond poorly to qualitative research. In contrast,

Morse et al. (2002) argue that in qualitative research both reliability and validity remain appropriate concepts for maintaining rigour in methodology and “make a plea for a return to terminology for ensuring rigour that is used by mainstream science” (p. 1). Some researchers have even proposed criteria for evaluating qualitative research following a constructivist approach (e.g., Guba & Lincoln, 1998) and also for an interpretive approach (e.g., Klein & Myers, 1999). Despite different perspectives on evaluating qualitative research with their respective terminologies, the central concern for any researcher is to ensure that their research can be described as a quality study.

This study’s epistemology strives to develop an understanding of innovation in social entrepreneurship through inductive analysis of data as explained earlier. In agreement with the arguments put forward by Morse et al. (2002), this study adopts their criteria for establishing reliability and validity in qualitative research to ensure rigour. The criteria used for establishing quality in the present study are detailed next.

#### **4.3.1 Ensuring reliability and validity in qualitative studies**

##### **Verification strategy 1: Methodological coherence**

First, the present study aimed for *methodological coherence* between the research question and the components of the method as per the recommendation of Morse et al., (2002). This study’s research question: “What are the characteristics of the social innovation process?” helped to define its purpose as exploratory using Yin’s (2001) criteria. Next, an interpretive approach was adopted as the literature review suggested that innovation can best be understood from the point of view of those involved, due to its intricacies and uncertainties (Van de Ven & Rogers, 1988 cited in Wolfe, 1994). Then, an inductive approach was selected for theory building in recognition of the paucity of extant research on social entrepreneurship (Austin et al., 2006). Further, the case study research strategy was selected as it fits in with the exploratory and interpretive approach adopted. Finally, the research design was based on multiple case studies with multiple sources of evidence to allow for inductive development of theory. Thus, efforts were made in every stage of this research study to ensure that the research question and method as well as data and analytic procedures all had a close fit in order to achieve methodological congruence.

### **Verification strategy 2: Appropriate research sample**

In the present study, the second strategy involved appropriate sampling to ensure that the sample consisted of participants who had some knowledge of the research topic (Morse et al., 2002). For this, the author reviewed the social entrepreneurship literature in order to identify the key actors in a social innovation. This revealed that social entrepreneurs were focal actors perhaps with other stakeholders such as beneficiaries (Alvord et al., 2004). This observation was confirmed by findings from the analysis of the pilot case and subsequently it was decided that multiple actors – social entrepreneurs, their associates and beneficiaries – would be interviewed. This decision was within the interpretive research paradigm and in contrast to extant interpretive, innovation studies in which views of only key informants – senior management – had been gathered (e.g., Zhao, 2005). Further, sampling adequacy, evidenced through data saturation and replication (Morse, 1991) was adhered to so as to ensure that sufficient data was collected on all aspects of the social innovation phenomenon. This was done by careful construction of the interview schedule that included questions on different aspects of social innovation and by emphasising different aspects to different participant types depending on their roles in the social innovation. For instance, social entrepreneurs were questioned on motivation behind their new ideas and beneficiaries were asked about the impact of the social innovation.

### **Verification strategy 3: Collecting and analysing data concurrently**

Third, an iterative approach was adopted in the present study so that data collection and analysis was done concurrently (Morse et al., 2002). For instance, the researcher moved back and forth between different research processes such as defining the research question, literature review, participant recruitment, data collection strategies and analysis.

### **Verification strategy 4: Thinking theoretically during data analysis**

Morse et al. (2002) also recommend that ‘theoretic thinking’ needs to be involved during the data analysis stage. In the present study, this was done by reconfirming the ideas emerging from within-case analysis of the first case followed by the second case and so on. Eventually the themes emerging from within-case analysis were used in cross-case analysis.

### **Verification strategy 5. Theory development combining micro and macro perspectives**

Finally, the present study involved constant iteration between a micro-perspective on data and a macro-theoretical understanding of the social innovation phenomenon. For this, the author used the social innovation framework developed in Chapter 3 as a template for writing within-case



reports of each case organisation. The themes identified from the framework enabled the reduction of voluminous data and helped to identify common patterns in the case studies during cross-case analysis. Thus, this strategy ensured that theory development was an outcome of the research process and provided a template for further development of the theory (Morse et al., 2002).

In addition to the above mentioned verification strategies, the author reviewed the literature to identify criteria for ensuring rigour in interpretive case research. This review revealed that researchers such as Benbasat et al. (1987) and Yin (1994) have suggested methodological principles for conducting case study research. However, these have been developed along the lines of conventions of positivism. In agreement with arguments put forward by interpretive researchers such as Klein and Myers (1999), Harvey and Myers (1995), Walsham (1995a; 1995b) and Lee (1991), the author recognised the inappropriateness of using positivist criteria for evaluating interpretive research. This is because interpretive research has distinctive ontological, epistemological and methodological assumptions. For this reason, the principles for conducting and evaluating interpretive research as suggested by Klein and Myers (1999) were also adopted in the present study.

### **4.3.2 Quality in interpretive research**

The techniques for establishing quality within the interpretive paradigm are summarised in Table 4.8 and these are explained next.

#### **The Fundamental Principle of the Hermeneutic Circle**

In this exploratory research, the central purpose is to gain a deeper understanding of the social innovation process. The principle of the hermeneutic circle requires the researcher to demonstrate that the findings involve iteration between the interdependent meanings of parts and the whole that they form (Klein & Myers, 1999; Gadamer, 1976). In other words, we understand a complex phenomenon (here, social innovation) from the preconceptions about the key activities involved, as experienced by the actors involved and their interrelationships. Techniques that were applied in this research to enable the application of the principle of the hermeneutic circle include, as indicated in Table 4.8, both within and cross-case analysis. The within-case write-ups included iterations between views of individual participants on social innovation within the organisational context. This was done during the data analysis process. The individual narratives helped to build up the social innovation account for each case organisation.

**Table 4.8 Criteria and techniques for conducting and evaluating interpretive studies**

*Source:* Adapted from Klein and Myers (1999).

### **The Principle of Contextualisation**

The principle of contextualisation requires the researcher to critically reflect on the social and historical background of the research setting. In the present study, the historical, cultural and organisational contexts for each social innovation were analysed.

### **The Principle of Interaction**

Interpretive researchers should include critical reflection on how data was socially constructed through their interaction with the participants. In the present study, for example, frequent discussions held with the social entrepreneurs in the pilot case informed the construction of the interview guide and selection of participants.

### **The Principle of Abstraction and Generalisation**

This principle requires the researcher to relate the idiographic details by the data interpretation and describe the nature of human understanding of social action. In the present study, for this, social capital theory is used in the empirical chapters to explain social interaction during a social innovation.

### **The Principle of Dialogical Reasoning**

Dialogical reasoning, as recommended by Klein and Myers (1999), requires the researcher to be sensitive to possible contradiction between theoretical preconceptions guiding the research design and actual findings. In the present study, to avoid this, the social innovation framework (Figure 3.1) was used as a template.

### **The Principle of Multiple Interpretations**

This principle requires the researcher to be sensitive to possible differences in interpretations among the participants such as multiple narratives of the same sequence of events under investigation. In the present study, this was done through the inclusion of narratives of multiple informants such as social entrepreneurs, their associates and beneficiaries on the sequence of events leading to a social innovation.

### **The Principle of Suspicion**

As per this principle, the interpretive researcher needs to be sensitive to possible 'biases' and systematic 'distortions' by the research participants in their narratives.

## 4.4 Reflections on the research experience

Looking back on my experience during the course of this study, I can now admit that I clearly underestimated the challenge of conducting a doctoral study. I realised that the process of writing a doctoral thesis is remarkably different from any other writing assignments I had undertaken so far such as conference papers and journal articles. I learnt how to conduct in-depth research, including the critical review of a vast amount of literature, collecting and analysing a wealth of data and discussing the findings.

From the start, I was interested in conducting research within the field of social entrepreneurship as it had already fascinated me during my previous teaching experience. Prior to commencing my PhD, I had taught entrepreneurship modules to undergraduate students for which I had to regularly conduct literature surveys on the entrepreneurship field as part of lecture preparation. That experience made me realise that the practice of social entrepreneurship challenged the dominant, economic logic in the entrepreneurship field that 'innovation is the specific tool of entrepreneurs as it provides them with an opportunity to make profits'. Digging deeper into this topic, it became clear that it was a niche worth exploring as innovations in social entrepreneurship were driven by a 'social purpose' (unlike profit motives in commercial entrepreneurship). Further, social entrepreneurship exemplified claims made by several scholars including Schumpeter (1934) that the impact of entrepreneurship-led innovation was not limited to economic development but also impacted social development. These observations made me realise that in exploring innovations within the context of social entrepreneurship I could make an original contribution to knowledge.

Reviewing the innovation literature was like reading an endless story. The literature on innovation is quite extensive and fragmented as innovation has been studied in a number of disciplines including Sociology, Organisation theory and Technology management. In these disciplines, scholars have defined, conceptualised and investigated innovation from a variety of perspectives leading to diverse interpretations of the phenomenon. This made it difficult to stay focused on the initial research question. Trying to distract myself from my studies proved to be equally challenging as I realised that innovation is ubiquitous and influences both economic and social spheres of human existence. I recollect going into the city centre to give myself a break from studying when I was approached by a homeless man, a vendor of the *Big Issue* magazine. After my purchase, I realised the impact of the social innovation on both the vendor, who was unemployed, and myself, as a consumer of the magazine. In supermarkets, I realised my motives

for purchasing fair-trade goods were not restricted to consuming quality products but that I was influenced by the 'social' objectives of the fair trade movement. I also noticed that business magazines and news channels frequently portrayed social entrepreneurs as heroic change-makers in society. Further, politicians in their speeches emphasised that social entrepreneurship with its embedded social purpose could be a better alternative to the culture of greed that prevailed in commercial enterprises following the recent collapse of commercial banks in the UK and USA. The rhetoric in the political arena was that social entrepreneurship could potentially be a more benevolent form of capitalism. Thus, there was no escape for me as I was confronted with social innovations every day and everywhere.

I had anticipated difficulties in recruiting organisational participants, especially social entrepreneurs, and their reluctance in revealing information on innovation due to its strategic importance. However, I found them all to be easily accessible and they were quite helpful in providing me with a list of potential participants. This recruitment success rate was possible due to a number of reasons. First, I recruited social entrepreneurs in India from Ashoka, a leading social entrepreneurs' network. These networks enabled me to correctly identify the social entrepreneur or entrepreneur who could act as gatekeeper in each social entrepreneurial venture. Second, I used the social entrepreneur(s) as gatekeepers to recruit relevant actors in each SEV. This helped me to identify actors involved in the social innovation including employees, associates and target beneficiaries. The implications were twofold: On the one hand, the participants may have felt a kind of obligation towards the gatekeeper and give their consent for conducting interviews. On the other hand, this may have limited the scope of their contributions. Third, I tried to get in touch with each participant by e-mail or telephone before conducting the interviews in order to provide them with an overview of the research topic and make myself as the researcher more approachable.

With regard to interviewing, I underestimated the demands of semi-structured interviews. Although I had read about interviewing, I found it very demanding to listen and ensure that the discussion was focused on the topic of innovation. I also found that each informant had a different and sometimes contradictory interpretation of the dimensions of the innovation being investigated.

From a methodological perspective, this study emphasised an interpretive approach aiming to gain a deeper understanding of the subjective experiences of actors involved in innovation. This

together with the semi-structured interviews provided rich, in-depth empirical findings, which confirmed the suitability of the methodological approach for answering the research questions. Although the literature on methodology had made me alert that this approach is capable of generating a large volume of qualitative data, I did not anticipate its voluminous extent. This was a drawback for analysing and interpreting the data. In particular, the open-ended nature of the semi-structured interview guide encouraged side tracking stories about all kinds of operational improvements and issues from some participants. While these were often interesting, they were not always relevant to the research itself. Reconsidering the process, I believe that a structured interview guide that reduced side tracking would have been beneficial for a simplified handling of data in the later stages of the research. Thereby, the lengthy process of sorting and categorising data would have been reduced, possibly without losing depth in analysis.

Initially, it was planned to limit data collection to semi-structured interviews to capture views from multiple informants on their experiences with innovation. However, during the course of the research it was decided that observations could supplement interview data as sources of evidence for several reasons. First, the overall research aim was an in-depth understanding of innovation in social entrepreneurship. This explicitly puts the emphasis on the experiences of social entrepreneurs and their target beneficiaries. Exploring this under-researched area required in-depth analysis of the data collected. Semi-structured interviews appeared to be a good and appropriate starting point but not sufficient for digging deeper into the embedded social purpose of each innovation. Therefore, it appeared more beneficial to add observations to semi-structured interviews to develop a deeper understanding of how the innovation was achieving its stated social objectives.

The interpretive approach of this study means that the findings are inevitably influenced by the researcher. The research methods selected, the construction of the interview guide as well as the choice of gatekeepers were the result of my own preferences, beliefs and understanding of the topic. In addition, the findings are influenced by my own interpretation of the data and their links to the existing research. I used multiple case studies and two different methods of data collection: semi-structured interviews and observations, with an aim to enhance the credibility of the findings. In addition, I looked at the data from multiple perspectives, that is, within-case and cross-case analysis. This, I felt, had also reduced potential bias when discussing the findings.

The focus and the strength of this research approach was to explore an under-researched topic with a preconceived, sensitising framework for innovation while remaining open to the experiences of the participants. The findings from this exploratory research need to be looked at by further empirical research before any generalisations can be made. Hopefully, this research has represented adequately the experiences of the participants and that the interpretations of the data reflect their own experiences.

#### **4.5 The role of the researcher**

In an interpretive, qualitative study with an exploratory and descriptive purpose, the researcher is not an uninvolved bystander but interacts with the subjects (Klein & Myer, 1999). In general, qualitative research is “very much influenced by the researcher’s individual attributes and perspectives” (Schofield, 1993, p. 202). For instance, the disclosure of female participants, especially in the case of the women-owned enterprise in India and the pilot case in Manchester, the personality of the researcher might have exerted a positive influence on data collection. This is because, as researchers like Dindia and Allen (1992) and Snell et al. (1989) point out, women tend to be more willing than men to disclose their experiences and emotions to strangers and in particular to other women. Further, in order to build a better rapport with the subjects and appear one of them, the author consciously dressed in a similar style as suggested by Robson (1993). To illustrate, for interviews with the social entrepreneur(s) and senior management, the author wore formal, business attire. Similarly, while interviewing beneficiaries, who often belonged to marginalised sections of society, a more casual and dressed down look was followed.

The research process throughout the length of the research project was iterative. For instance, data collection and its analysis were carried out concurrently as recommended by Morse et al. (2002). This meant that the author frequently moved back and forth between different research activities such as recruitment, interviewing, transcription and data analysis. Also, by conducting semi-structured interviews, the author had the flexibility of changing, for example, the order of questions in the interview guide. This enabled her to be responsive to changing organisational contexts and type of participant (Kvale, 1996). However, it is possible that some of the interviews provide more in-depth insights due to greater probing by the author or greater responsiveness of the participant. The overall impact of this on the research’s findings is minimal. Generally speaking, all the participants contributed to the research by sharing their motivations and/or experiences of the social innovation being investigated. The tape recordings of interviews were transcribed verbatim without any attempt by the author to make sense of the interviewee’s

response. This ensured that during the data preparation stage that preceded data analysis, none of the data collected through interviews was lost or altered.

## **4.6 Chapter Summary**

In order to gain an in-depth understanding of the social innovation phenomenon, the author pursued a multiple case study research design within an interpretive paradigm. This resulted in qualitative data that captured the motivations and experiences of multiple actors in the social innovation process. The paucity of research on social entrepreneurship in general and social innovation in particular meant that an exploratory and inductive research approach was selected based on a descriptive, self-evaluation of the social innovation phenomenon by the research participants. This research design ensured a good fit between the research question and the data collection and analysis procedures. In order to conduct the research with rigour, quality criteria put forward for qualitative research were followed in combination with principles for conducting interpretive studies.

Multiple data collection methods were used to gather data for case studies through semi-structured interviews and observations. These methods were found to be the most appropriate for gathering subjective views of the research participants on social innovation. The multiple case study design was useful in the inductive development of theory on social innovation. Case organisations were selected in the study through a selection criteria formed by analysing the pilot case in conjunction with conducting a literature review. Similarly, participants recruited for the study were key informants who could provide information relevant to the social innovation being investigated. Data analysis was done using both within-case and cross-case analysis using the social innovation framework developed in Chapter 3. In the next chapter, the findings from the within-case analysis for the first case study organisation are presented.



## Chapter 5: Case Study 1 – Shri Mahila Griha Udyog

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### 5.1 Introduction

This chapter examines in detail the social innovation in the first case study organisation, Shri Mahila Griha Udyog<sup>1</sup>, popularly known as Lijjat. Lijjat is a for-profit SEV exclusively owned by women that has gained global recognition for its novel business model based on an alternative ideology, Sarvodaya<sup>2</sup>. Since the venture was created in 1959, the sister members of this venture have consistently practised the core principles of the Sarvodaya ideology: self-reliance, collective ownership, profit-sharing and cooperation. In the process, they have created an entrepreneurial venture with a mission of creating self-employment opportunities for women. Thus, in several ways, the case exemplifies successful social entrepreneurship practised at the grassroots level.

This chapter presents the within-case analysis of the case study, that is, a detailed write-up of the research site as a stand-alone entity (Eisenhardt, 1989). This chapter is structured as follows. In the first section, the social innovation is identified and its cultural, historical as well as organisational contexts are explicated. This is because in previous research, scholars like Taspell & Woods (2010) and Overall et al. (2010) have emphasised the context specificity of innovation within the context of social entrepreneurship. The second section presents the case analysis and discussion using the social innovation framework (Figure 3.1) as a template. This includes mapping the social innovation process of Lijjat followed by a detailed analysis and discussion along three themes: 1) the social innovation process, 2) capital combinations in the social innovation process and 3) value creation. Quotes from interviews (L1-L7) with organisational informants are included in the chapter.

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Shri Mahila Griha Udyog<sup>1</sup> In most Indian languages, Mahila stands for women Griha for home and Udyog for industry.

Sarvodaya<sup>2</sup> an ideology put forward by Mahatma Gandhi, the leader of India's freedom movement.

## 5.2 Case background

In this section, the organisational objectives and social innovation in the first case are identified and its historical, cultural as well as organisational contexts are presented in line with the interpretive paradigm adopted in this study. Further, scholars such as Tapsell & Woods (2010) and Overall et al. (2010) have previously emphasised the context specificity of social innovations.

The details of the interviewees in the first case are given in Table 5.1. Pseudonyms have been given for the interviewees in all three cases.

**Table 5.1 Overview of interviewees in Lijjat**

| Interviewee   | Role  | Gender | Age   | Length of employment/<br>membership | Class              | Education        | No of times interviewed |
|---------------|---|--------|-------|-------------------------------------|--------------------|------------------|-------------------------|
| Mrs Iris (L1) | Administrator (paid employee)                           | female | 50-59 | 20 years                            | middle class       | post-graduate    | 2                       |
| Priti (L2)    | Vice President and branch member (Lijjat sister member) | female | 60-69 | 36 years                            | middle class       | secondary school | 2                       |
| Swati (L3)    | Secretary (Lijjat sister member)                        | female | 50-59 | 34 years                            | middle class       | graduate         | 1                       |
| Sheena (L4)   | Treasurer (Lijjat sister member)                        | female | 50-59 | 29                                  | middle class       | graduate         | 1                       |
| Sita (L5)     | Lijjat sister   | female | 50-59 | 30                                  | lower middle class | secondary school | 1                       |
| Gita (L6)     | Lijjat sister   | female | 60-69 | 45                                  | lower middle class | high school      | 1                       |
| Gul (L7)      | Lijjat sister   | female | 50-59 | 27                                  | lower middle class | high school      | 1                       |

### 5.2.1 Organisational objectives

The main objective of Lijjat is to ‘*provide employment to ladies to enable them to earn a decent and dignified livelihood*’ (Lijjat, 2011). This can be seen as a well-defined social mission of providing self-employment opportunities to women. The centrality of this mission to the functioning of the organisation is reflected in this excerpt from the interview with the administrative head (a female employee and not a sister member of Lijjat):

*I am only a paid employee of the organisation, the real story of interest for you is that of the Lijjat sisters. This institution belongs to its sister members and our purpose is to provide self-employment opportunities to our members” (L1)*

### 5.2.2 Identifying the social innovation

All innovations investigated in this thesis are social innovations. As detailed in Chapter 3, the working definition of social innovation in this study is:

*“Any novel and useful solution to a social need or problem, that is better than existing approaches (that is, more effective, efficient, sustainable, or just) and for which the value created (benefits) accrues primarily to society as a whole rather than private individuals”*

(Phills et al., 2008, p. 36)

From the above definition, we can identify three distinctive features of a social innovation. First, the innovation must represent a novel solution to a social problem or need. Second, it must be better than the existing approaches. Third, its benefits must accrue primarily to society (rather than individual social innovators). Researchers point out that social innovation within the context of social entrepreneurship may involve the introduction of new business models (Seelos & Mair, 2005). From this it follows that new business models which provide sustainable solutions to social problems constitute a social innovation. Using this line of thought, the author concluded that the novel business model of Lijjat that is based on an alternative business ideology, Sarvodaya, represents a social innovation. This is because the business model enabled lower-income women to engage in collective entrepreneurship as a means to gain self-employment, thus representing a sustainable solution to a social need.

These above stated assertions are well supported by evidence from the case, that is, both the secondary data and the primary data gathered from fieldwork. In the secondary data sources reviewed, that is, the organisational website, its literature and published case studies, the practice

of the Sarvodaya was identified as a key success factor of Lijjat. For instance, in their case studies on women's empowerment both Bhatnagar & Dixit (1993) and Ramanathan (2004) describe the significance of the ideology to the venture's success. Further, the core principles of Sarvodaya were reiterated in the organisational literature such as the organisation's website, its newsletters and brochures (Lijjat, 2007; 2009d). Ramanathan (2004) elaborates that there are four core principles of the Sarvodaya ideology: collective ownership, cooperation; self-reliance and profit-sharing. Table 5.2 summarises evidence of the practice of these four principles in Lijjat from the quotes extracted from nine interviews conducted with seven organisational informants.

### **Collective ownership**

Collective ownership as per the Gandhian ideology of *Sarvodaya* advocates "joint ownership of assets by a community and business was to be nothing but a refined form of service" (Ramanathan, 2004, p.1690). This principle is reflected in accounts of Lijjat sisters. When asked to describe the uniqueness of their organisation (see Appendix E, Question 2), some participants claimed that theirs was a unique equity-based women's organisation where each member had the flexibility to choose her work. For instance, Swati, member of the Central Management Committee states:

*"As sister member and co-owner in the organization, I have no boss as such. This means that I have the freedom to choose my work" (L2)*

Similarly, Priti, member of the Central Management Committee states:

*"I am my own boss. I strongly feel part of the Lijjat family" (L1)*

Finally, Gul, a Lijjat sister from the Bandra branch elaborates the collective orientation of the organisation as:

*"In Lijjat, we are like a large family of sisters. The sister members come from every religion, castes and background. We support each other through difficult times" (L7)*

The above contributions suggest that as the SEV is owned and controlled by the sister members it represents collective ownership. Collective ownership has been investigated in the social entrepreneurship literature. For instance, Haugh (2007) investigated community-led social ventures in Scotland and found that these ventures were owned and controlled by the members of a community. Similarly, Peredo & Chrisman (2006) report on community-based ventures in remote areas of Peru. However, the Lijjat case is unique as its ownership and membership is restricted to women.

Previous research on women founders of NGOs in India suggested that women entrepreneurs shared a feminist ideology (Handy et al., 2003). In this regard, Kassam et al. (2002) make an interesting point that ventures founded by feminists reflect their founders' ideology resulting in relatively flat, non-hierarchical structures. Though this thesis is not based on the feminist approach, the flat structure of Lijjat and the reiteration of the term sister in all the discourses lend some credence to the above claims. Further comparative study is needed on how the organisational structures of women-founded enterprises are influenced by the gender focused objectives of the organisation.

**Table 5.2 Practice of Sarvodaya principles at Lijjat**

| Core Principle       | Interview Quotes  |
|----------------------|---|
| Collective ownership | <p>"As sister member and co-owner in the organisation, I have no boss as such. This means that I have the freedom to choose my work" (L2)</p> <p>"I am my own boss. I strongly feel part of the Lijjat family" (L1)</p> <p>"In Lijjat, we are like a large family of sisters. The sister members come from every religion, castes and background. We support each other through difficult times" (L7)</p> |
| Cooperation          | <p>"There is a relaxed atmosphere there are no bosses. Nobody is discriminated whatever work they may do. We all enjoy the work" (L7)</p> <p>"I enjoy working here in the company of other sister members and the informal atmosphere means that I feel a part of the Lijjat family" (L6)</p>   |
| Self-reliance        | <p>"The women did not take any form of charitable donations or other support offered to them" (L1)</p> <p>"The loan from KVIC was repaid immediately" (L1)</p> <p>"We have not taken any form of donation or grant. The organisation has grown because of the hard work of all the sisters" (L2)</p>  |
| Profit-sharing       | <p>"The profit from the first six months of operations was distributed evenly amongst the sister members" (L1)</p> <p>"Over the years, I have received several tolas of gold as profits. Last year I received Rs. 15,000 in distributed profits" (L6)</p> <p>"For my daughter's marriages, the gold coins I received as distributed profits were very useful" (L7)</p>                                    |

Source: Fieldwork, 2009

## Cooperation

Another principle of the *Sarvodaya* ideology is cooperation (Lijjat, 2007). The need to cooperate for the growth of the enterprise is emphasised in its literature. For instance, one of the issues of Lijjat Patrika (organisational newsletter) states:

*"The Lijjat is in a real sense a school to learn how to develop oneself by imbibing the spirit of unity and cooperation."*

(Lijjat, 2009c, p. 3)

Priti describes cooperation amongst sisters as:

*"In case of disputes, women members are asked to resolve them as they would in a family situation."* (L2)

Similarly, Sheena explains:

*"All decisions are based on consensus. We make decisions that benefit all the sisters."* (L4)

These contributions reflect the solidarity amongst sister members of the organisation which may be a direct outcome of collective ownership. This is because the women members being joint owners would share common goals in terms of organisational performance. In other words, there is congruence between individual goals of each sister member with the organisation's goal (Sitkin & Roth, 1993). This then is likely to foster cooperative behaviour. Previous research investigating innovation within a large multinational corporation found that frequent interaction amongst organisational actors creates trust (Uzzi, 1996) which in turn facilitates cooperation (Tsai & Ghoshal, 1998). It is possible that the women members' daily interaction during production might have encouraged cooperative behaviour.

## Self-reliance

Self-reliance is another principle of the *Sarvodaya* ideology which advocates the use of manual labour for production (as in a cottage industry) as an alternative to the Western concept of mechanised production (Lijjat, 2009c). In the case of Lijjat, the founder members vowed to be self-reliant after paying off the Rs. 80/- they had borrowed to start their venture. This is now a standard practice of the institution as explained by Mrs Iris, its administrative head:

*"The women founders did not take any form of charitable donations or other support offered to them. We do not take any donation from any external agency."* (L1)

She adds that once the KVIC (Khadi & Village Industries Commission, a government body in India) loan was repaid in 1966, the institution refrains from external borrowing. Her quote reflects the practice of self-reliance:

*"The loan from KVIC was repaid immediately and that too with interest. We finance our organisation with internally generated funds."* (L1)

Stressing the focus on self-reliance, Priti, the Vice President states:

*"We have not taken any form of donation or charity. The organisation has grown because of the hard work of all the sisters"* (L2)

The above quotes indicate that self-reliance is a practice followed by the sister members till today and this has reduced the organisation's reliance on external borrowings. Ramanathan (2004) points out that self-reliance has helped to develop the self-confidence of the sister members while enabling the institution to retain its independence. This is especially important as the women members come from grassroots levels in Indian society. However, this finding is in contrast with findings from a large-scale study conducted by Shaw & Carter (2007) on social enterprises in the UK. Their study reported that social entrepreneurs mentioned the following key sources of finance: charitable trusts (49%); regional and central government (49%) and European Union funding (39%). These differences could be country-specific but they raise further questions on whether the availability of finance in the UK favours the non-profit format and its absence favours the for-profit format in India. However, this aspect needs to be researched further through comparative research that investigates the influence of availability of finance on organisational format.

### **Profit-sharing**

The fourth principle of *Sarvodaya* advocates profit-sharing (Lijjat, 2009c). This practice emerged in Lijjat when the "profits from the first six months of operations were distributed amongst sister members in the form of gold coins" (Ramanathan, 2004, p. 1690). Recent issues of the *Lijjat Patrika*, the in-house newsletter mention profit-sharing announcements. For instance, the May, 2009 issue states:

*"...sister members of Mumbai and Thane branches and divisions received additional rolling charges on the occasion of Golden Jubilee celebrations"* (Lijjat, 2009c, p.2).

Evidence for profit-sharing also exists in the accounts of Lijjat sisters. For instance, Gita, a veteran Lijjat sister who has worked for three decades at Lijjat mentions:

*"Over the years, I have received several tolas (gram) of gold as profits. Now, that the price of gold has risen we receive our profits in cheques or cash. Last year I received Rs. 15,000 in distributed profits."* (L6)

Similarly, Gul, another Lijjat sister associated with Lijjat since 1985 explains:

*"I and my family roll out 25-30 kilos of papad on a daily basis. The income helps to run our family. For my daughter's marriage, the gold coins I received as distributed profits were very useful"* (L7)

Finally, Sita explains her accumulation of distributed profits over her long association (four decades) with the organisation:

*"I was also able to marry my two daughters for which I used the gold coins received as distributed profits in their weddings. In fact, I have earned nearly 25 Tolas (25\*10 grams of gold) of Gold during the forty years I worked here"* (L5)

The above contributions indicate that Lijjat sisters regularly receive distributed profits on an annual basis. The likelihood of receiving financial rewards (distributed profits) may have encouraged entrepreneurial behaviour amongst the women considering their long-term association with the organisation.

In summary, this section has shown that the women members of Lijjat have consistently practised the principles of *Sarvodaya* and in the process they have created a for-profit SEV that has thrived in a competitive market for over five decades. In the next subsection, the cultural context within which this social innovation emerged is considered.

### **5.2.3 Cultural context: women's empowerment in India**

Indian society has been described as a patriarchal one where family structures manifest and perpetuate the subordinate status of women (Ramanathan, 2004). Women facing social restrictions tend to lose their self-confidence which in turn creates employability barriers. Research conducted in the developing world has found that existing gender inequalities contribute to extreme poverty because they exclude women from engaging in economic activities (Cheston & Kuhn, 2002). Reflecting this, poverty statistics indicate that despite decades of female emancipation, women form a "disproportionate number of the poorest and marginalised populations in the world" (Gailey, 2010, p. 56).



In recognition of these barriers, organisations aiming to alleviate poverty, such as SEVs in the micro-finance sector have primarily targeted women as the beneficiaries of their services (Todd, 1996). By encouraging women's entrepreneurship, practitioners believe they can contribute to the economic and social empowerment of women. Empowerment is defined as a multidimensional and interlinked process of change in power relations which expands individual choices and capacities for self-reliance (Mayoux, 2003). Thus, previous research indicates that women's engagement in entrepreneurial activities contributes to their empowerment.

Researchers highlight various benefits of women's entrepreneurship for developing economies. First, entrepreneurship contributes to women's empowerment by helping them attain "the ability to take action" (McNelly & Dunford, 1999, p. 63). In the case of Lijjat, women from lower income groups engaged in collective entrepreneurship thereby "becoming active agents in the process of their empowerment" (Ramanathan, 2004, p. 1689). This empowerment process is clearly reflected in the biographical accounts provided by six Lijjat sisters in their interviews recorded by the author. In each individual sister's account, a distinct entrepreneurial career path can be traced that reflects the impact on her life and that of her family.

The entrepreneurial mindset that involves searching for self-employment opportunities is evident in the responses of contemporary sister members. For instance, when Priti, Vice-President (who joined the organisation in 1973) was asked to describe her association with the organisation she explained her reason for joining as:

*"When I joined, I lacked education or skills so that job opportunities for me were nearly non-existent at that time. The possibility to earn income by using my spare time and working close to my residence attracted me to work here in the first place". (L2)*

Priti's response indicates that her lack of education and skills restricted her employability. Further, the possibility to earn an entrepreneurial income while continuing with her familial responsibilities motivated her to join Lijjat.

Similar views were expressed by Sheena, Treasurer, Lijjat:

*"When I joined the organisation, I had just left school as my family could not afford it. My lack of education meant that I had little potential for earning income in alternative vocations in Mumbai. While working here at Lijjat, I managed to earn a regular income by working in the mornings for a few hours and then continued with my studies by attending evening school."(L4)*

The above quote reflects that by earning an entrepreneurial income, Sheena was able to take action (McNelly & Dunford, 1999) that enabled her to transform her life. In other words, she took the initiative to become an active agent in the process of her own empowerment (Ramanathan, 2004). Some participants described how financial hardships led them to join Lijjat. For instance, Gul, a Lijjat sister working in Bandra (West) branch joined the organisation in 1985 because of her husband's persistent unemployment. She explains:

*"After my marriage, I migrated to Mumbai. Since, I was illiterate there were no job opportunities for me. Further, my husband has always found it difficult to find meaningful employment. As a result I found it difficult to survive in this huge city with my children. Luckily, one of the women in my neighbourhood who was a Lijjat sister introduced me to the organisation. I realised that by working here, I could earn an income to support my family. Also, since I would be working from home and with other women, my husband would not raise any objections". (L7)*

The statement '*my husband would not raise any objections*' in the above quote indicates the existence of patriarchal restrictions on lower-income women in Indian society. Similarly, Gita, another Lijjat sister, working in Bandra West branch describes how working in Lijjat helped her and her family to survive in Mumbai despite having an alcoholic, unemployed husband:

*"Personally, my husband has been long term unemployed. I run the family entirely from my income from Lijjat. My children and now my daughters-in-law help me with papad rolling and drying every day in the evenings at home. We collectively roll out over twenty five to fifty kilos of dough every day. Every day when I come to the production centre, I receive cash for my previous days' work. This cash is important to me as it helps to run my family, provide savings and enable me to marry off my children. Lijjat has given me hope and courage to overcome my personal problems as my husband has never worked for a single day." (L6)*

Researchers have also pointed out that entrepreneurial income can enable women in developing economies to "increase their bargaining power in the household, enable sharing of household chores and childcare responsibilities" (Hashemi et al., 1996, p. 648). Here, we can see how women's entrepreneurship enables women to gain social empowerment. For instance, several Lijjat sisters reported that their income enabled them to pay for the education of their children. Priti mentions this in her interview quote:

*"My income was important for my family and it enabled me to send my children to University" (L2)*

The above quote reflects how economic empowerment enables women at the grassroots level to make decisions on important family matters such as education of their children. The enhanced

bargaining power of entrepreneurial women in family matters is well elaborated in Swati's account:

*"My family has benefited from my income as I was able to educate my children and send them to University. In fact, my son is doing his MS in the US for which I have paid the entire fees in dollars. My second son is studying in a private school in the tenth standard. I have been able to provide good education to my children by working here."* (L3)

The above statements reflect how women's entrepreneurial income enhances their status within their families. In the case of Lijjat, women members have actively used the organisation as a medium to promote theirs and their families' welfare. This includes measures such as increasing the availability of healthcare and scholarships (Ramanathan, 2004). For instance, meritorious children of sister members receive scholarships. Swati elaborates on the scholarship scheme:

*"These scholarship cheques will be given to the children of our sister members who have achieved good marks in their annual school and university exams. Those getting distinction will get Rs. 15,000. We all realise the importance of education as we were not able to pursue education due to our family's circumstances."* (L3)

Lijjat also provides healthcare to its sister members. For instance, eye checking camps are organised by the organisation in Mumbai as mentioned in the May and July, 2009 issues of the newsletter (Lijjat, 2009g and 2009e, p. 1). Mrs Almeida explains some of the welfare measures the organisation undertakes for its sister members:

*"We run literacy campaigns for our members, give scholarships to their children and organise health checkups from time to time."* (L1)

Cultural context is important to understand innovation within the context of social entrepreneurship (Tapsell and Woods, 2010). Data from the case suggests that patriarchal restrictions and low levels of education pushed the women members of Lijjat to engage in collective entrepreneurship as a means of overcoming constraints. As Ramanathan, (2004) observes in her article:

*"Through the means of the organisation that provided for a greater sense of self worth, agency and common purpose, these women were able to use it as a springboard to other activities which had a more clearly directed objective of collective empowerment"*

(Ramanathan, p. 1691).

The existence of patriarchal constraints and educational barriers for women has been implied in previous empirical research conducted on women entrepreneurs in India. For instance, D'Cruz (2003) found that women undertook enterprise in the absence of other means of contributing to their family's income and that they had low levels of educational attainment. Similarly, Mitra's

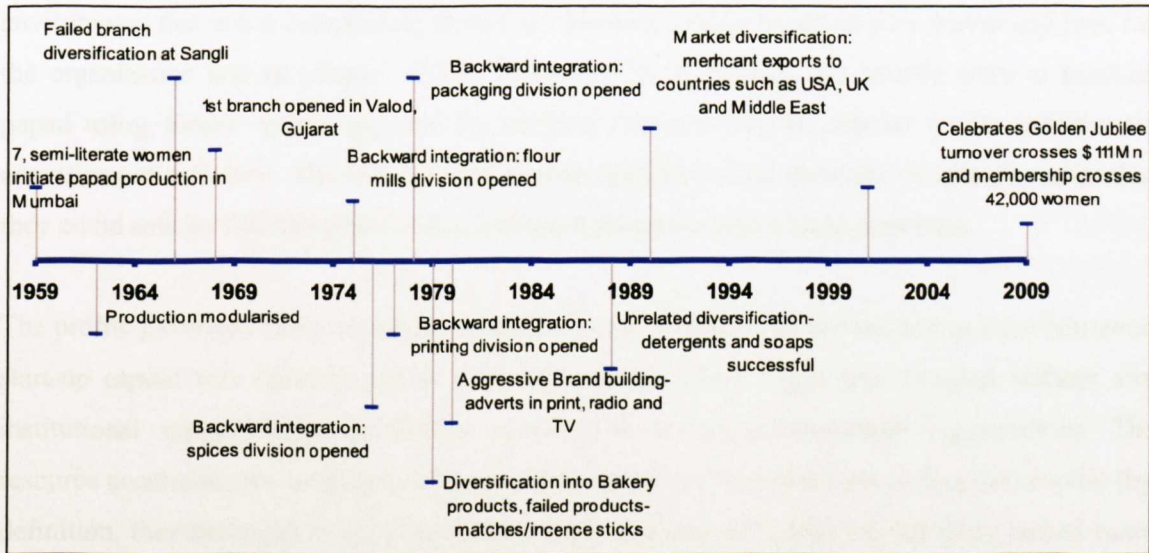
(2002) study found that women who were driven by necessity rather than choice to undertake entrepreneurship are likely to belong to low-income groups.

To summarise this section, the accounts of Lijjat sisters reflect their cultural context. This collective initiative founded in Mumbai emerged against a backdrop of cultural barriers to women’s employment. Over the past five decades, that collective initiative has grown into a large scale and globally recognised women-owned enterprise exemplifying social entrepreneurship at the grassroots level. The following section traces its evolution over five decades.

### 5.2.4 Historical context: tracing the social innovation

In this sub-section, the evolution of the social innovation (Figure 5.1 illustrates the time line), that is the initiation, development and scaling of the business model is traced. This involved tracing key events from Lijjat’s foundation year in 1959 right through to its Golden Jubilee Celebrations in 2009 when the author collected data.

**Figure 5.1 Timeline: five decades of Lijjat (1959-2009)**



Source: Author, from organisational data.

#### 5.2.4.1 Early years of a joint women’s initiative (1959-1966)

##### Founding years

Lijjat was founded on March 15<sup>th</sup>, 1959 by a group of seven, semi-literate women residing in an old building complex in Mumbai who belonged to the Gujarati peasant community. These

women were looking for opportunities to start a home-based venture that could utilise their spare time. They took over a failed papad production venture with a borrowed start-up capital of Rs. 80/- (pound 1) and began their operations from the terrace of their residential building using ingredients sourced from their kitchens.

Papad is a popular snack in India. In the UK, it is popularly known as poppadum (Datta & Datta, 2009). Papad is a fairly versatile snack with a long shelf life, it can be prepared in different flavours and can be eaten as an accompaniment to a meal or as a snack on its own. The pioneering group of women were mentored by two Gandhian followers: Chhaganlal Parekh and Dattanibapa who envisioned the creation of a women's enterprise founded on the principles of Sarvodaya (Lijjat, 2009c).

Sarvodaya is an ideology put forward by Gandhi, which translates as 'equity for all' where everyone within a community shares tasks (joint-ownership) and profits. The social workers mentoring the women founders had a vision of "creating an exclusively women's enterprise that produced a quality product which these women had the expertise to make with a work environment that is not competition driven and mechanized but based on pure labour and love for the organization and its people" (Lijjat, 2009c, p. 3). In essence, the women were to produce papad using simple technology and by working cooperatively in contrast to the mechanistic operations of a factory. The women used quality ingredients and their low overheads meant that they could sell the finished product at a reasonable price through a local merchant.

The profits generated from the initial operations were reinvested in the venture and the borrowed start-up capital was speedily repaid with full interest. Thus, Lijjat was founded without any institutional support from the Indian government or non-governmental organisations. The resource constraints the women founders faced were severe lack of access to financial capital (by definition, they belonged to lower-income groups) and lack of human capital (they lacked basic education and had no prior entrepreneurial/work experience). However, despite these constraints these women were self-reliant and did not accept any form of donation or government subsidy.

The mentors of the women founders emphasised the importance of quality standards in production and the need to maintain daily accounts to keep a strict vigilance over operations. This helped attract customer demand and production was increased to keep up with the escalating demand by expanding the group membership. This reflects the core Sarvodaya principle of self-

reliance that advocates the use of labour (instead of machinery) in production. This low-cost strategy enabled the venture to grow without significant investments in production such as production facilities and equipment.

By the end of the first six months in 1959, twenty five women were engaged in the initiative and the profits were equally distributed amongst the twenty five women members in the form of one gram of gold (Bhatnagar & Dixit, 1993). This practice of profit-sharing amongst sister members reflects another core principle of the Sarvodaya that advocates sharing profits within a community. This practice of profit-sharing helped to inculcate an entrepreneurial spirit amongst the sister members and the venture grew from their collective efforts.

### **Development of Innovative approaches**

In the first year, production was ceased for four months due to the dampness resulting from the rainy season in Mumbai. Despite this setback, Lijjat ended its first year of operations with a turnover of Rs. 6196/- (about £ 60/) (Lijjat 2009c). In the second year, the women purchased a cot and stove for drying out papads which was a simple effective solution to overcome the dampness problem (Ramanathan, 2004). In the second and third year, production was gradually increased by renting additional rooms and further expanding group membership.

By the end of the third year, three hundred women were engaged in papad production and space became a major constraint. However, these constraints led to an important process innovation, specifically, “production was decentralised which was a simple yet effective way in meeting demand and streamlining operations” (IFAD, 2006, p. 22). To elaborate, the lentil dough (or the raw material for papad production) was mixed centrally as per standard specifications and distributed amongst the 300 women members to take to their homes early in the morning. Each individual woman then spent hours rolling out papads daily in the confines of her residence which now became a mini production centre. The finished papads were delivered to the production centre the following day while another batch was collected. Quality was maintained by visually inspection by experienced members and the finished product was weighed and any variance was carefully recorded in the daily accounts maintained a branches. This practice is followed till today as observed by the author in the Bandra branch.

The decentralisation of production helped to create a flexible work environment for the women. Based on their output, the women members received cash daily for their previous day's production efforts. This daily cash settlement for production can be seen as an important financial

innovation in Lijjat with benefits accruing to both the individual woman member and the enterprise. At the individual level, each women member received remuneration for her work in cash on a daily basis ensuring security from a life-long self-employment opportunity whilst working from home. This regular entrepreneurial income contributed to the woman's economic empowerment as she was no longer dependent on others for financial support. Instead, her family became dependent on her entrepreneurial income contributing to the woman's social empowerment. This process of empowerment is evident in the interviews of sister members (see section 5.2.3). In essence, their individual accounts describe how their income enabled them to build a house, send their children to school or University, give gifts to their children in weddings. In some of these accounts it is clear that the entire family was supported by the entrepreneurial income of Lijjat sisters in cases where the husbands were unemployed or suffering from poor health or effects of alcoholism. The dependence of each individual sister member's family on her income helped to enhance her bargaining power in important family decisions such as her children's upbringing, education as well as contribution to family savings and investments. Thus, the flexibility in work afforded by the decentralisation of the production process and regular entrepreneurial income enabled individual sister members to gain support and encouragement from family members. Contemporary sister members interviewed by the author reported that some of their mothers had worked as Lijjat sisters. These women mention that they regularly helped their mothers in rolling out and drying papads after returning home from school. Thus, the decentralisation of the production process transformed each sister member's home into a mini-production centre which helped them to overcome patriarchal restrictions on work.

At the organisational level, the decentralisation of the production process helped Lijjat to standardise its production process using simple technology while gaining a low-cost competitive advantage over its competitors. To elaborate, several benefits accrued to the enterprise from this process innovation. First, in terms of operations, modularising the production process enhanced the production capacity of Lijjat dramatically while providing flexibility to alter production in line with changing customer demand. Production could now be streamlined in response to demand without incurring upfront capital investments in the form of production facilities such as land, factory space or expensive machinery. In effect, production capacity was enhanced by engaging women members in manual production using simple technology and utilising each women member's home as a mini production centre. Second, the flexibility in production helped to keep up with changing dietary preferences of customers (Lijjat, 2009c). In fact, over time, the enterprise was able to tally its daily production schedule as per customer demand reported by its

appointed sales distributors. Thus, the decentralised production enabled Lijjat to scale its operations while lowering its operational costs and by 2009 Lijjat was the world leader in papad production.

The effectiveness of the modularised production process was further enhanced by the development of innovative approaches to financing operations. These developments can be traced back to the foundational years. First, all sales were carried out in cash initially through merchants and later through appointed distributors. A cash sales only policy enabled the enterprise to scale its operations using profits thereby eliminating the need for financing working capital. Second, cash transactions did not require sophisticated accounting techniques and even semi-literate member sisters could record them meticulously. This is remarkable given the low educational level of the sister members. The sister members diligently followed the accounting system and even those who were not directly involved in its administration were aware of system procedures during their initiation into the enterprise. On a monthly basis, financial statements, the balance sheet and income statements were prepared with help from accountants, a role initially performed by experienced husbands (with basic accounting principles) of the sister members (Ramanathan, 2004). Strict accounting control ensured a better approach to working capital management. In time, this would inculcate entrepreneurialism and greater vigilance over all management decisions. Third, all the women members were paid their for their daily production efforts in cash the following day. For the individual sisters, this form of economic security (daily cash for production efforts) promoted an entrepreneurial spirit and they undertook greater responsibilities to ensure the success of their enterprise. This also encouraged cooperative behaviour as individual goals (economic security) and organisational goal (economic performance) were in congruence. This entrepreneurial mindset is evident in these two accounts of Lijjat sisters from the Bandra Branch. First, Gita, a veteran Lijjat sister from Bandra Branch explains that her entire family helps her in papad rolling:

*"My children and now my daughter-in-law help me with papad rolling and drying every day in the evenings at home. We collectively roll out over twenty five to fifty kilos of dough every day. Every day when I come to the production centre, I receive cash for my previous days' work. This cash is important to me as it helps to run my family, provide savings and enable me to marry off my children. Lijjat has given me hope and courage to overcome my personal problems as my husband has never worked for a single day. One can earn as much here depending on the labour one puts in. This can help women from my background who lack education and skills to earn a regular income throughout their lives." (L6)*



Similar views are expressed by Gul, another Lijjat sister from Bandra West branch:

*"I work along with my two daughters and two daughters-in-law rolling 50-55 kilos of dough daily. In the evenings, our family home is transformed for a few hours into a little production centre. We are now used to producing the papads in a short time. The income is sufficient for us to live our lives comfortably. I bring the dried papads and receive my rolling charges. Since, I roll out quite a large quantity of dough, I also earn a larger income than some of the other sister members in the branch."* (L7)

At the organisational level, cash settlements reduced the need to maintain elaborate management systems such as administration, human resource management and so on. In many ways the enterprise was a flat, open structure with each individual sister member having equal ownership as well as membership in each organisational task. Another outcome of this novel financial system is its simplicity in design. A simple financial system could be easily maintained and monitored by trained sister members. More importantly, a simple system can be easily replicated by all organisational members, which can be crucial for scaling operations without incurring investments in human capital or sophisticated accounting systems. Finally, carefully prepared accounts enhanced the credibility of the cooperative venture in the public eye (Ramanathan, 2004). Thus, financial innovations developed within the enterprise in the early years complemented the modularised production process. These innovations can be seen as a 'system' of innovations where several innovations can be identified as components.

To summarise, the decentralisation in food production (a process innovation) carried out by the Lijjat sisters is quite a radical innovation considering the resource constraints under which it developed.

### **Growth of the joint initiative in the early years**

In 1961, an early attempt to open a new branch in Malad, a suburb of Mumbai was unsuccessful (Ramanathan, 2004). This failure suggests that the enterprise's diversification strategies were still in developmental stages and its market research capabilities had yet to emerge. However, this event also created an opportunity for the sister members to engage in organisational level learning. Further, the quick response to a failed venture by shutting it down can be seen as an important milestone in the development of Lijjat as an entrepreneurial venture.

In 1962, the brand name 'Lijjat' (meaning tasty in the Gujarati Language) was adopted for the products of the enterprise (Bhatnagar & Dixit, 1993). The organisation was also named Shri Mahila Griha Udyog Lijjat Papad. By the end of 1962-63, Lijjat's turnover crossed Rs. 1.82 crores (or \$410,000). The enterprise continued to grow slowly as a joint initiative of women until

1966 when it was formally registered as a public trust and society (or cooperative). This event led to the adoption of a formal constitution by its members based on *Sarvodaya*. In line with this philosophy, all the sister members of the institution were considered its owners and they would jointly share its profits or losses. In this manner, the core values that developed in the initial years were institutionalised.

#### **5.2.4.2 Development of an Institution (1966-1968)**

In 1966 alongside its formal registration, Lijjat gained the status of a cottage industry from the Khadi & Village Industries Commission (KVIC), a government body in India (Ramanathan, 2004). This was an important milestone in the history of the organisation as reflected in this quote from an interview with Mrs Iris, the administrative head:

*“We received a subsidized, working capital grant for Rs. 8 Lakhs (approx. £ 10,000) from KVIC and our status as a cottage industry meant our products attracted tax exemptions” (L1)*

The working capital loan was used to scale the operations. First, Lijjat began to scale its operations by diversifying into new products and markets where maximum number of women could be engaged in production without resorting to automation. This was in line with the organisational mission of providing self-employment to women. The period between 1966 and 1968 is one in which the business model was refined and organisational systems were developed. In essence, this period is marked with experimentation and refinement of the business model based on learning from successful and unsuccessful diversifications.

#### **Branch expansion for Papad production**

First, branch expansion was carried out for papad production in other cities of India where dietary preferences meant that a market demand already existed. In 1966, an attempt to start a branch in Sangli town was unsuccessful (Ramanathan, 2004). In 1968, the first branch outside the state of Maharashtra was opened in Valod, Gujarat (Lijjat, 2009c, p. 2). Based on the learning from failed diversifications, a systematic approach to branch expansion was adopted. The Mumbai model that had been successful was adopted as the standard for replication. First, a few experienced sister members from the Mumbai branch relocated to Valod for a couple of months at a time, taking turns to train the newly recruited (local) sister members in branch operations (Ramanathan, 2004, p. 1692). New sister members were recruited through advertisements placed in regional newspapers. The trained, new recruits were entrusted with the administration of the Valod branch once they gained sufficient proficiency in running the day to day operations. In the same manner, branches were opened in Wadala and Pune in 1968 (Lijjat, 2009a). The training period generally

lasted for about six months but once functional the sister members were to manage their own affairs. This standardised approach to replication is reflected in this quote from Priti, the Vice-President:

*"I travelled to different cities and stayed for months while training other sisters in the new branches that were being opened" (L2)*

Branches were slowly opened throughout India with each branch developing into an autonomous unit responsible for its day to day operations. The rapid expansion of branches resulted in decentralisation of authority which further reduced the operating costs of Lijjat compared to its competitors, specifically those producing papads using mechanised, industrial production. The overall responsibility of promoting the branches was held by the head office in Mumbai.

#### **5.2.4.3 Scaling Period (1968-2009)**

The period between 1968 and 2009 can be seen as a scaling period as during this time branch expansion and product diversification was carried out at an unprecedented scale in the organisation. For instance, in terms of branch expansion, branches were opened in 17 states of India and by 2009 72 branches were operational each catering to their local market (demand). The institution also undertook diversification into related production areas that can be classified as a cottage industry. First, the institution opened processing divisions for the ingredients that were needed to make or sell papad. This form of vertical integration made economic sense as by 1975 Lijjat had over 13 branches and these diversifications could utilise the existing skills of the sister members. The flour mills division was opened for grinding lentils in 1975, spices division in 1976, printing division in 1977, and polypropylene packing division in 1978 (Ramanathan, 2004). These related diversifications supported the process of papad production and were quite successful.

In 1979, the institution began leveraging its popular brand 'Lijjat', to produce bakery and other products (IFAD, 2006). Some of these diversifications were unsuccessful as Mrs Iris recalls:

*"Some ventures like cottage leather, matches and incense sticks were unsuccessful but we shut the ventures that were not economically viable" (L1).*

In the 1980s, Lijjat launched an aggressive marketing strategy to promote its brand by taking part in trade fairs and through advertisements in print, radio and TV. This helped to make Lijjat one of the most widely recognised brands in India. In 1988, Lijjat diversified into an unrelated area –

soaps and detergents under the brand name SASA, which became a major commercial success (Ramanathan, 2004). In the early nineties, Lijjat began exporting its products to the UK, USA, the Middle East, Singapore, the Netherlands and other countries. In 2001, its annual exports to the USA exceeded US\$ 2.4 million (Lijjat, 2009a).

In 2009, when data was collected, Lijjat had completed its 50<sup>th</sup> year of operations and was providing self-employment to over 42,000 women in its 71 branches and 35 divisions spread across India. The annual turnover had crossed Rs. 5 Billion (around \$111Mn) and its product range included papad, flour mixes, bakery products and detergent. The enterprise's success and unique business model based on equity has attracted worldwide attention in the form of accolades from government and business bodies for innovation and entrepreneurship.

To summarise, the story of Lijjat is unique in several ways. Its growth has been spurred by the entrepreneurial efforts of its sister members who undertook greater responsibilities to ensure the enterprise's success.

## **5.2.5 Organisational Context: Mission, structure and culture**

In this section, the organisational context is detailed in order to identify its influence on the social innovation under investigation in this chapter.

### **5.2.5.1 Target beneficiaries**

The target beneficiaries of Lijjat are its sister members. As per its constitution, any woman, irrespective of class or religion, willing to work in any capacity can become a member by signing a pledge of devotion to the basic tenets of the organization, that is, a "*commitment to earn legitimate honest income, through work on a cooperative basis*" (Lijjat, 2007).

Though the organisation's working philosophy states that it is "neither for poor sisters, nor for the rich ones" (Lijjat, 2007, p. 3), the profile of its members can be described as women from lower-income groups with an entrepreneurial orientation. This is because women from lower-income groups are willing to engage in time consuming manual production. Further, income for the Lijjat sisters is in the form of daily rolling charges (wages) and distributed profits. In essence, Lijjat is a self-targeting enterprise. This self-selection mechanism was reflected in the interviews conducted

by the author where all the seven women interviewed reported that they had mothers, relatives or friends who were themselves Lijjat sisters.

For example, Swati, Secretary, Lijjat explained:

*"I joined Lijjat in 1980. My mother was a Lijjat sister since 1970 and when my father passed away she thought that I could earn an income as my family was poor" (L3)*

Similarly, a number of sister members mentioned that they were introduced into the organisation by women in their neighbourhood who were all sister members. For instance, Priti states:

*"I was introduced to Lijjat by a ben from the neighbourhood (ben, in Gujarati means sister)." (L2)*

Finally, Sita states:

*"My neighbour and sister-in-law introduced me to the organisation" (L5)*

The above contributions indicate that the sister members interviewed come from similar socio-economic backgrounds. The current membership of the organisation stands at 42,000. In addition to the sister members, the enterprise also has salaried employees, both men and women working in diverse roles such as accountants, drivers and administrators. However, the employees do not have any ownership rights and their appointment or dismissal is done by women members. In this chapter, the primary focus is on the women members of the organisation.

### **5.2.5.2 Organisational structure**

The organisation structure of Lijjat can be described as non-hierarchical as all its working members are the owners of the organisation. This structure reflects the ideology of *Sarvodaya* which advocates collective ownership. Further, each sister member gets an equal share of profits and losses, irrespective of her work, seniority or responsibility (Lijjat, 2007). This 'flat' structure is described in the accounts of Lijjat sisters. For instance, Priti, the Vice President of Lijjat remarks:

*"The informal set up in Lijjat meant that I was my own boss and at the same time my regular interactions with other sister members helped me to develop lifelong friendships." (L2)*

Similar views are expressed by Swati, Secretary, Lijjat;

*"As sister member and co-owner in the organisation, I have no boss as such. This means that I have the freedom to choose my work, the number of working hours I want to work so that this fits in with my lifestyle and family situation. This flexibility is important for me as I can continue to run my family while performing my job responsibilities." (L3)*

Reflecting collective ownership, a democratic and participative management style has evolved in Lijjat. This is especially remarkable if we consider its scale of operations. For instance, all decision making in Lijjat is consensual and every sister member has a right to veto (Lijjat, 2007). Mrs Iris explains the decision making process in Lijjat as:

*"All decisions whether big or small are based on consensus in Lijjat. When the management committee meets every month, we make decisions on new proposals for branches based on consensus."* (L1)

The overall running of Lijjat is entrusted to a Central Managing Committee of 21 members (Fig 5.1) which includes (besides paid employees) six elected sister members or the office bearers: the President, Vice President, two secretaries, and two treasurers. The office bearers of the committee are elected from amongst the member sisters every three years (Lijjat, 2007). This Committee has monthly meetings at the head-office in Bandra, Mumbai and is responsible for strategic decisions. Mrs Iris explains the strategic decision making process:

*"The committee considers proposals for new ventures or branches. These proposals are then evaluated for their market feasibility and the potential in generating self-employment for local women. The proposal with maximum market potential and the ability to maximise employment opportunities for women is then selected."* (L1)

The head-office of Lijjat at Mumbai coordinates activities such as procurement; business with dealers/exporters; auditing of branch accounts, advertisement and operational strategies at an all India level. At the branch level and divisions, *Sanchalikas*<sup>3</sup> are in charge. They are elected by the sister members every three years. Mrs Iris explains the branch operations:

*"The branch committee consists of 11 sisters chosen by consensus and headed by one or two Sanchalikas."* (L1)

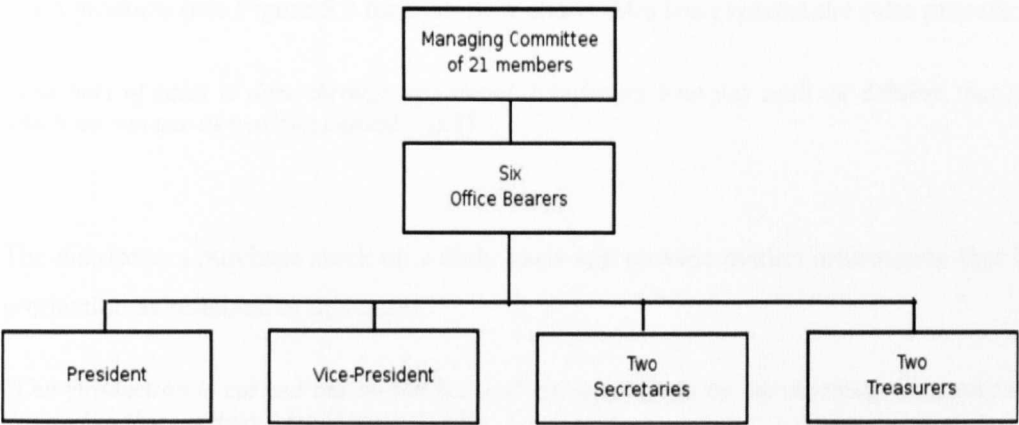
Initially, the branches were coordinated by the head-office but as the organisation grew, branch operations were decentralised. Now, branches run as a self-administering unit where the sister members working at a branch make all decisions regarding profit-sharing and the terms of work.

To facilitate inter-branch interaction and knowledge sharing, branch coordination committees exist that coordinate activities in a region or state. Lijjat has an annual general meeting attended by member sisters representing all the branches. To summarise, the organisation structure of Lijjat is fairly decentralised, which enables participative decision making to happen.

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<sup>3</sup>*Sanchalika* translates as branch in charge

**Figure 5.2 Lijjat : organisation structure**



Source: Lijjat

**5.2.5.3 Operational strategy**

Lijjat’s has adopted a low-cost operational strategy to produce quality goods at reasonable prices. Stringent quality measures have been developed for every aspect of the production process. For instance, Mrs Iris explains how quality ingredients are sourced from around the world in this quote:

*“The head-office purchases and distributes all the ingredients. We import urad dal (a variety of lentil) from Myanmar and asafoetida from Iran while black pepper comes from Kerala.” (L2)*

The above contribution suggests that centralised procurement enables the organisation to source quality ingredients and ensures standardised inputs to production. Similarly, finished products (like papad) are visually inspected as Priti explains:

*“The more experienced sisters inspect the finished papads that are bought in daily. They weigh them and record any variance which attracts a deduction in the rolling charges paid to the sister member” (L2)*

Finally, as the papads are prepared in different parts of India, to prevent any inconsistencies due to the variations in the quality of water, Lijjat regularly tests its products in its own laboratory in Mumbai (Bhatnagar & Dixit, 1993). The above statements suggest that quality control during procurement and packaging as well as research and development activities are regularly undertaken by the enterprise. These standards ensure consistent quality which has made Lijjat a popular brand with customers in India and overseas.

At this point, it is imperative to consider the implications of cash sales policy adopted for all Lijjat products (see Figure 5.3 for cash flow chart). Mrs Iris explains the sales process:

*“The bulk of sales is done through appointed distributors who pay cash on delivery that releases cash which we can use as working capital.” (L1)*

The distributors purchase stock on a daily basis and provide market information that is useful for production as reflected in this quote:

*“Our production is carried out on the basis of estimates given by our distributors or on local customer demand so that we do not build stock.” (L2)*

Monthly meetings with distributors are held as Mrs Iris explains:

*“In monthly meetings, we discuss issues related to quality, price and market conditions with our distributors.” (L1)*

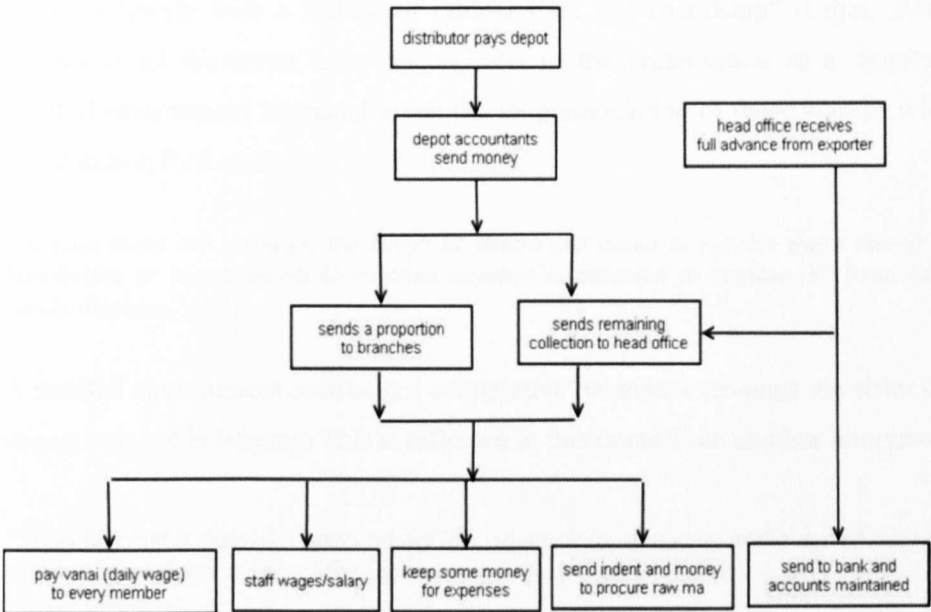
The above statements indicate that through its distributor networks, Lijjat is able to update its market information at a low cost and respond to customer demand. Lijjat exports its products through merchant exporters who specialise in Indian food products. Remarkably, exports are also done on a cash basis as Mrs Iris explains:

*“The exporters place an export order and on receipt of a full advance, we begin production” (L1).*

Exports are carried out through the export division in Mumbai. At present, 30-35% of production of Lijjat Papad is exported to countries such as the USA, the UK, the Middle East, Singapore and Hong Kong averaging Rs. 30 crores, or \$6.8 million (Lijjat, 2011). The cash collection flowchart at Lijjat as depicted in Figure 5.3 suggests that the cash cycle is short and that cash generated can be used as working capital. This cash policy is an important financial innovation in Lijjat that has contributed to the success of Lijjat as it has enabled large scale operations without huge borrowings.



Figure 5.3 Cash sales flowchart



Source: Lijjat

#### 5.2.5.4 Organisational culture

In this section the core elements of Lijjat’s organisation culture are examined.

##### Core values

The organisational literature suggests that Lijjat is an amalgamation of three different concepts: 1) business concept is based on the principle that ‘business should be run wisely on sound and pragmatic footing’ (Lijjat 2009a, p. 2). This is reflected in this quote from an interview with Priti:

*“Only ventures that are profitable are continued while unviable ventures are quickly shut. We require a return on our investments in new branches”* (L2)

Further, Mrs Iris states that:

*“We need to ensure profitability by engaging women members in manual production.”* (L1)

These above statements indicate that the organisation follows a pragmatic approach to conducting business. Statements like “we need to ensure profitability” and ‘unviable ventures are quickly shut’ indicate that financial sustainability is a major concern in the organisation. This is important given the fact that Lijjat is self-reliant relying on internally generated funds rather than external borrowings or donations. This is also in line with the for-profit format adopted by the organisation.

The second concept adopted by Lijjat is the concept of family that implies that the “organisation is like a family with a feeling of mutual trust and friendship” (Lijjat, 2009b, p. 2). In their interviews all the seven Lijjat sisters refer to the organisation as a ‘family’. This perception of a familial environment is crucial given the long association of these women with the organisation. For instance, Priti states:

*“In case there are disputes, the involved sisters are asked to resolve these themselves. If not, then the Sanchalika or Management Committee member is expected to resolve the issue like a mother resolves family disputes.” (L2)*

A familial environment encourages cooperative behaviour amongst the sister members creating a strong sense of belonging. This is reflected in this quote from another interview with Priti:

*“Lijjat has had a massive impact on my life. So much so, that even at the age of sixty I can’t think of a life without Lijjat. I feel a part of the Lijjat family” (L2)*

Similarly, Swati adds:

*“I also like the fact that here I am able to interact with other women and develop lifelong friendships with a number of other sister members. Some of these sisters belong to my community and live near my family home.” (L3)*

Further, to create an informal environment of a family, the author observed that the sister members addressed each other as ‘sister’. This familial concept is best reflected in this quote from an interview with Gul, a Lijjat sister:

*“In Lijjat, we are like a large family of sisters. The sister members come from every religion, castes and background. We support each other through difficult times. The friendships we develop here help us to tide over difficult times in our lives-survive unemployed alcoholic husbands, educate our children, settle our children by marrying them off and so on.” (L6)*

The third concept is that of devotion which requires every member of the organisation to treat the workplace as a place of worship (Lijjat, 2007). For instance, Swati describes how work commences each morning at 5 AM:

*“We begin our day with an all religion prayer. Our work is our worship as this has been seen as through our good and bad times” (L3).*

The above mentioned quotes reflect how the core concepts of business, family and devotion are practiced by sister members. These core values have been ingrained in the organisation’s culture.

## Open Communication

Case data suggests that open communication is followed at Lijjat. Previous empirical research indicates that open, two-way communication is vital for developing an innovative culture in entrepreneurial ventures (e.g., Kanter 2006; Martin & Terblanche, 2003). This is because open communication allows organisational members to participate in decision making and problem solving activities (Arad et al., 1997).

The flat structure of Lijjat combined with participative decision making facilitates open communication as reflected in this quote:

*"All decisions are made on the basis of consensus of the sister members present. However, if a sister wishes she can veto a decision" (L2)*

Previous research shows that open communication enables organisational members to participate in decision making and problem solving activities (Arad et al., 1997). In essence, this enables a wider participation by organisational members and their creative ideas facilitate innovation. For instance, open communication encourages organisational members to display loyal opposition which pushes them into question existing practices (Hamel, 2000). By question practices, new ideas can emerge or these can be refined. Evidence from Lijjat indicates that participative decision making is facilitated through a more open form of communication. Another related aspect is the availability of information which is referred to by Mrs Iris in this quote:

*"Any sister member can look at the accounts and visitors are shown around our production centres. We also circulate the minutes of our meetings" (L1)*

Similarly, Swati points out:

*"We print and distribute a monthly newsletter that informs all the sister members about upcoming events and circulates the monthly minutes of meetings" (L3)*

Swati is referring here to the monthly newsletter 'Lijjat Patrika' and the author reviewed six issues of the newsletter to find that information regarding key events and decisions was printed in it. In summary, open communication is a key element of Lijjat's culture which reflects the practices of innovative organisations.

## **Autonomy**

The enterprise provides much flexibility to its members in terms of the activities and the level of responsibilities they wish to undertake. It may be recalled here from Chapter 2 that previous research on commercial entrepreneurial ventures that autonomy facilitates innovation (Martin & Terblanche, 2003). In Lijjat, the sister members choose their activities and responsibilities on a voluntary basis as this quote indicates:

*"I roll out over twenty five kilos of papad in a single day. My family often helps me in rolling papads. In Lijjat, I can choose to earn more if I put in more effort"* (L7)

The above statement suggests that Gul chose to put efforts in production. However, if the sisters wish they can undertake administrative responsibilities to advance their entrepreneurial career within the organisation. To elaborate, all the three members of the management committee interviewed by the author had begun their career in Lijjat by rolling out papads. Over time, they enhanced their entrepreneurial income by undertaking more administrative and executive responsibilities. This choice is reflected in Swati's autobiographical account:

*"I joined Lijjat in 1975. I had to drop out of school due to my father's early demise but working here helped me to complete my schooling. I joined as a cashier and was promoted to storekeeper and then to Sanchalika (Branch Head). I have been the treasurer in the management committee for the past three years. Lijjat has provided me an opportunity to be my own boss."* (L3)

The above mentioned quotes suggest that autonomy is another key aspect of Lijjat's culture much in line with characteristics of an innovative organisation.

## **Skills development through learning by doing**

Evidence suggests that in Lijjat the focus is on developing the firm specific human capital of its sister members, that is, the skills and knowledge gained through on-the-job training (Becker, 1962). First, the firm specific human capital of newly recruited sister member is developed through training provided by the more experienced sister members for nearly six months in task specific skills such as manual production, maintaining daily accounts and so on. This is reflected in this quote from an interview with Priti, Vice President:

*"I have travelled all over the country to new branches for training new sisters in branch operations staying in the new branch for up to six months. I show them how to produce papads, weigh and package papads and how to maintain daily accounts. Once they become competent, they have to run the operations on their own."* (L2)

Similarly, Mrs Iris, administrative head explains:

*"Every sister is trained by more experienced sisters in all areas of branch operations for nearly six months after which she has to act on her own" (L1)*

The above statements indicate that the organisation has a well-developed system for developing task specific skills of its sister members. Further, this form of learning is referred to as learning-by-doing and requires transfer to tacit knowledge (Handy et al., 2003). Then, as each sister gains competency in basic skills, if she wishes she may undertake administrative roles to advance her entrepreneurial career within the organisation. This career path can be traced in all the accounts of sister members interviewed by the author. For instance, Swasti provides a detailed account of her career:

*"In 1975 when I joined, I began work as the branch cashier because I had basic school education. I received training on joining from senior sisters for months. I was then made responsible for all the cash payments to lady members of the branch. I also maintained the administrative and accounting records related to these cash transactions. I performed this role for several years. In 1981, I was promoted to the post of a storekeeper for finished goods. At the same time, I got involved in training newly recruited sister members." (L3)*

The above account suggests that skills development is integral to the training provided by Lijjat to its sister members and once an individual sister member gains competency she is expected to train others. Further, Swati then explains how her career progressed once she took on executive responsibilities:

*"In 1990, I became Sanchalika for Muland Branch in Mumbai. As Sanchalika, I was responsible for the branch's entire operations and was part of the Branch Committee which met monthly to review the branch's performance. I continued in this role for nearly twenty years. In 2009, I was elected to the current post of Secretary as part of the Central Management Committee. I have been a Committee member for over three years." (L3)*

The above account of Swati illustrates that the managerial skills of sister members develop over time once they take an active role by participating in committee meetings. Participation in such meetings is an important learning experience for the sister members as they become aware of important issues and gain problem solving skills. Besides, while discharging administrative

duties or training other sisters, the women also develop their soft skills such as communication and leadership skills. Swati reflects on how her soft skills were enhanced in this quote:

*"Lijjat has provided me an opportunity to be my own boss and I have also developed my communication and people skills by interacting with other sisters, travelling to other branches and meeting distributors. My self-confidence has increased" (L3)*

Similarly, Priti, Vice President explains:

*"I have trained sisters in new branches opening in different parts of India. I attend meetings and trade fairs held all over the country. When I joined the organisation, I lacked the confidence to talk to people. But now I meet visitors, journalists and other media people and show them around our branches" (L2)*

Besides on-the-job training, the institution runs literacy campaigns, publishes a monthly in-house newsletter – *Lijjat Patrika* – which contains minutes of management committee meetings, key events and articles on feminist issues. In summary, evidence suggests that the organisation invests considerable resources for the development of the firm specific human capital of its sister members.

### **5.3 Discussion of themes derived from the social innovation framework**

In this section, the elements of the social innovation framework developed in Chapter 3 (Figure 3.1) are used to categorise the emerging themes as: the social innovation process, capital combinations in the social innovation process and the value generated.

#### **5.3.1 The social innovation process**

In this subsection, first the development of the social entrepreneurial opportunity is considered which triggered the social innovation process in Lijjat.

##### **5.3.1.1 Social barriers or opportunities for collective entrepreneurship**

Data presented in section 5.2 suggests that in the case of Lijjat, women facing patriarchal restrictions and employment barriers saw an opportunity to gain self-employment by setting up a joint initiative through collective entrepreneurship. Two aspects of opportunity recognition in

Lijjat can be identified from the case data: 1) recognition of existence of barriers and 2) collective action to overcome these barriers.

### **Recognition of barriers by women founders and members**

The seven women founders faced several barriers way back in 1959. First, as detailed in the cultural context (section 5.2.3), the women faced patriarchal restrictions. Second, they lacked generic human capital (education and training) which created employment barriers. Both patriarchal sanctions and employment barriers can be seen as a social issue which the founder members recognised as an opportunity to establish a women's joint initiative as a means to gain self-employment (Drucker, 1985).

The barriers faced by the women founders of Lijjat are also mentioned in the accounts of contemporary sister members who joined Lijjat three decades ago as summarised in Table 5.3. In the case of employment barriers, five of the six Lijjat sisters interviewed reported that they had

**Table 5.3 Patriarchal sanctions and employment barriers of Lijjat sisters**

| <b>Barriers</b>              | <b>Quotes from interviews</b>  |
|------------------------------|--|
| <b>Patriarchal sanctions</b> | <p>"I joined because I thought I could earn an income while maintaining my home doing my duties as a housewife" (L2)</p> <p>"My husband works in L&amp;T factory. Initially, he did not encourage me to join Lijjat, he thought that there was no need for me to work as he had a regular job in a good company" (L3)</p>  |
| <b>Employment barriers</b>   | <p>"Actually, when I joined here, I lacked education or skills so that job opportunities for me were nearly non-existent at that time" (L2)</p> <p>"My father's sudden death meant that my family's financial situation was quite bad. This meant that I had to leave my Secondary School education and was required to earn a living" (L7)</p> <p>"I had not been educated so finding meaningful employment in Mumbai was out of question for me". (L5)</p> <p>"My family's background being poor, I was not able to attend school as a child" (L4)</p> <p>"When I joined the organisation, I had just left school as my family could not afford it" (L3)</p> |

limited educational attainment when they joined the organisation, which restricted their employability. This suggests that these women realised that their collective engagement in an entrepreneurial venture represented an opportunity to gain self-employment to meet an economic need and overcome their cultural constraints. Thus, in the case of Lijjat, the source of social entrepreneurial opportunity can be seen as a form of self-help (Hockerts, 2006).

## **Collective Action**

Collective action is the second aspect of the social entrepreneurial opportunity pursued by women members of Lijjat. For instance, the enterprise was founded in 1959 by seven semi-illiterate women and growth was achieved through expanding group membership (Ramanathan, 2004). Further, at the time of its formal registration in 1966, Lijjat adopted a constitution defining its objective as: *“to provide women with self-employment opportunities”* (Lijjat, 2007). Here, the term collective action refers to sister members engaging collectively in entrepreneurship as a means to improving their families’ well being. Data for collective action can also be seen in the organisation’s operations and innovation strategy. For instance, Mrs Iris, the administrative head states:

*“The Central Management committee considers any proposal for the opening of a new branch or venture and after conducting an extensive market research jointly decides on the course of action”* (L1)

Some researchers in the emerging field of social entrepreneurship have highlighted the collective orientation of social entrepreneurs and SEVs as distinct from the individualist orientation of their commercial counterparts. For example, Shaw & Carter’s (2007) study conducted in the UK showed that social entrepreneurs in SEVs acknowledge the participation of other actors and organisations. Similarly, Peredo & Chrisman (2006) describe community-based entrepreneurship as being collectivist and provide several examples from Latin America. However, these studies have not conducted a more detailed examination of why multiple actors take collective action in a social innovation.

In a recent study conducted in New Zealand that investigated innovation in social enterprises, Corner & Ho (2010) argued that “multiple actors coalesced because knowledge needed in each innovation episode was not possessed by a single person” (p. 651). Peredo & Chrisman (2006) make a similar observation in their study on community-based enterprises (CBEs) in the remote areas of Peru when they point out that CBEs are created on the “basis of collectively owned cultural, social and ethnic endowments...which creates solidarity among community members”



(Peredo & Chrisman, 2006, p. 23). This pattern of collective action as evidenced in Lijjat's case is in contrast to the dominant discourse in extant literature that social entrepreneurs are heroic individuals (Zahra et al., 2009). Researchers tend to romanticise the social entrepreneur in their accounts as individuals with exceptional traits laying emphasis on individuals rather than the collective (Nicholls & Cho, 2006) as agents of social change. For instance, in their typology of social entrepreneurs, Zahra et al. (2009) refer to them as 'social engineers, social bricoleurs and social constructionists'.

### **5.3.1.2 Temporal periods of the social innovation process**

Three temporal periods can be seen in the social innovation process of Lijjat: the initiation; development and scaling periods, identifiable in the historical account (section 5.2.4) of the social innovation. This is in line with previous research that indicates that the entrepreneurial innovation process can be decomposed into three distinct phases each with its own set of activities (e.g., McFadzean et al., 2005; Shaw et al., 2005). However, as empirical research by Van de Ven et al. (2008) indicates, the social innovation process is far more dynamic and complex than can be visually illustrated. For instance, throughout the social innovation process several failed ventures were closed down by Lijjat. Organisational learning from these failed ventures would have led to the refinement of the business model and practices. However, lack of data on failed ventures limits our analysis. Besides, such dynamism in the social innovation process can be best captured through a longitudinal study of the social innovation which due to time constraints is out of the scope of this thesis.

#### **Initiation Period (1959-1966)**

In the context of social entrepreneurship, exploratory research suggests that the initiation period of a social innovation involves the recognition of a social issue or problem by a collective (Haugh, 2007) and the development of conjectured solutions (or new ideas) for the same (Corner & Ho, 2010).

In the case of Lijjat, the women founders recognised the existence of patriarchal sanctions and employment barriers. These pioneering women then developed a vague idea that a home-based venture utilising their cooking skills and spare time represented a self-employment opportunity. The women founders shaped their ideas over time under the influence of the Gandhian ideology of *Sarvodaya* with its core principles of self-reliance, collective ownership, profit-sharing and cooperation. Thus, in the initiation period in Lijjat we can see considerable experimentation and refinement of the idea that led to the creation of an exclusively women-owned joint initiative.

Table 5.4 outlines the key activities of the social innovation process at Lijjat. The initiation period lasted for seven years. During this period the collective initiative grew organically and the women founders' mentors advised them on how to operationalise the Sarvodaya ideology.

**Table 5.4 Initiation period activities**

| Activities                             | Evidence from case study  |
|--|---|
| <b>Experimentation</b>                 |   |
| Adoption of a new business ideology    | "The women founders were advised by two social workers: Chhaganlal Parekh and Dattanibapa who envisioned the creation of a women's enterprise founded on the principles of <i>Sarvodaya</i> " (Lijjat, 2009c, p. 3) |
| Production process modularised         | "When 300 women could not be accommodated in the terrace of the building, the process was decentralised" (L1)   |
| Daily accounting systems developed     | "The social workers emphasised the importance of good accounts and the sisters maintained daily accounts of transactions...their husbands initially helped with monthly financial statements..." (L1)               |
| <b>Refinement of ideas</b>             |   |
| Founding of a joint women's initiative | "the women founders borrowed Rs. 80/- and started production from the terrace of their homes" (L2)  |
| Self-reliance                          | "the women founders returned the Rs. 80 borrowed with interest and then vowed not to take any form of charity, donation or money..." (L1)   |
| Profit-sharing                         | "..profits from the first six months of operations was distributed to women members equally in the form of a single gold coin" (Ramanathan, 2004)   |
| Collective ownership                   | "..quality attracted customer demand, production was increased by expanding group membership" (L1)  |
| Cooperation                            | "...the sisters faced hardships at home but by rolling out papads collectively they could earn an income" (L2)  |

### **Development period (1966-1968)**

Previous empirical research conducted on a number of innovations indicates that the development period is characterised by concentrated efforts to transform the innovative idea into a concrete reality (Van de Ven et al., 2008). In the case of SEVs, activities in the developmental stage

involve the creation of a new venture with an embedded social purpose (Haugh, 2007) and the institutionalisation of the new idea into routines and operations (Guclu et al., 2002). The key activities during the development period at Lijjat are summarised in Table 5.5.

**Table 5.5 Key activities at Lijjat during the development period (1966-68)**

| Key activities                    | Evidence from case study  |
|-----------------------------------|---|
| Development of a social mission   | “In 1966, Lijjat was formally registered under the societies act as a women’s cooperative and a constitution was adopted recognising the women members as the owners of the organisation” (L1)  |
| Development of the business model | “Practices that were begun by women founders in the initial years....became the standard operations..” (L1)<br><br>“Experienced sister members taught new sister members branch operations as new branches opened” (L2)<br><br>“In 1966, KVIC recognised Lijjat as a cottage industry and provided a working capital loan that enabled us to buy basic equipment” (L1)<br><br>“A cash only sales policy was adopted” (L1) |

**Scaling Period (1986-2009)**

Austin et al. (2006) suggest that strategies to disseminate social innovations include “scaling the organisation directly (or organic growth) and working in partnership with other organisations (or inorganic growth) or some combination of both these approaches (Austin et al., 2006, p. 7). In Lijjat’s case, the organic growth approach has been adopted for scaling the social innovation and this is illustrated in Table 5.6. Specifically, the Mumbai model was replicated and a number of related as well as unrelated diversifications were undertaken.

**Table 5.6 Scaling of Lijjat's social innovation**

| Scaling strategies                    | Evidence from case study  |
|---------------------------------------|---|
| Branch expansion across Indian states | "Branches were opened in 17 Indian states and now in 2009 we have 72 branches" (L1).                                    |
| Vertical Integration                  | "We have centralised divisions that provide flour, spices, packaging and printing to support our food production" (L1). |
| Related diversifications              | "Lijjat introduced a number of snack products such as Khakra, flour mixes, spices" (L1)                                 |
| Unrelated diversifications            | "Several failed ventures such as cottage leather, matches and incense sticks were shut down as they were unviable" (L1) |

### 5.3.2 Capital combinations in the social innovation process

In this subsection, the role of each form of capital in the social innovation process in Lijjat is summarised by the data presented in Table 5.7.

**Table 5.7 Forms of capital in Lijjat's social innovation process**

| Forms of capital in social innovation          | Evidence from case study  |
|--|---|
| <b>Financial capital – resource constraint</b> | <p>"Lijjat was founded in 1959 by seven women with a start-up capital of Rs. 80/-" (L1)</p> <p>In 1966, Lijjat received a working capital grant of Rs. 8 lakhs (£10,000) from KVIC but the loan was quickly repaid" (L1)</p>  |
| <b>Human capital – resource constraint</b>     | <p>"Our women members often lack basic education. On recruitment each new recruit receives nearly six months of training in branch operations from more experienced sister members" (L2)</p> <p>"We run literacy campaigns and provide scholarships for children of women members to encourage education" (L1).</p> |
| <b>Social capital – enabler</b>                | <p>"My neighbour introduced me to Lijjat" (L1)</p> <p>"My mother was a Lijjat sister" (L3)</p> <p>"We all started out by rolling out papads" (common identity) (L4)</p> <p>"All decisions big or small are done by consensus" (L1)</p>  |

**5.3.3 Value creation – economic and social value**

Previous research in the area of social entrepreneurship suggests that SEVs create both economic and social value (Zahra et al., 2009) with some suggesting that social value creation is the distinctive characteristic of social entrepreneurship (e.g., Austin et al., 2006; Christie & Honig, 2006; Tracey & Jarvis, 2007). A common measure of economic value is the growth in turnover of an organisation. However, there is much ambiguity as to what constitutes social value as it is difficult to articulate social objectives in measurable ways (Dees & Anderson, 2003a,2003b) as standardised measures of social value creation are in developmental stages.

Following from the above, we can capture the economic impact/value of the social innovation by looking at the growth in the turnover of Lijjat (Table 5.8) and fathom its social impact by considering its membership. From the historical account (section 5.2.3), we find that the joint initiative was launched with a start-up capital of INR 80/- (or US\$1) by seven women and its turnover at the end of the first year was US\$ 138/- engaging twenty five women. By the third year of operations, the turnover had risen to US\$ 4000/-, a spectacular growth of 2899%. In terms of social impact, growth was twelve fold with over three hundred women engaged in the initiative. Following its registration as a cooperative in 1966, exponential growth was achieved. At the time of collecting data in 2009 for the present study, the sales turnover of Lijjat had crossed US\$ 111 million. Further, its 72 branches and divisions spread across India engaged its 42,000 women members in the manual production of a range of fast moving consumer goods such as snacks, spice mixes and detergent. Nearly 30% of its produce was being exported to USA, UK and other countries through merchant exporters. Thus, in several ways, Lijjat exemplifies successful social entrepreneurship practiced at the grassroots level.

**Table 5.8 Economic and social impact of Lijjat (1959-2009)**

| <b>Year</b> | <b>Turnover *(\$)</b> | <b>Membership (sister members)</b> |
|-------------|-----------------------|------------------------------------|
| 1959        | 138                   | 25                                 |
| 1962        | 4000                  | 300                                |
| 2009        | 111, 000, 000         | 42, 000                            |

Source: Lijjat

\* conversion from INR to USD done at current exchange rate of 1 USD=INR 45

The figures mentioned in Table 5.8 provide a snapshot of the value created by the introduction of a new business model by Lijjat. It may be recalled from our earlier discussion that social value is a concept that defies proper quantification. Thus, to provide further evidence of the 'social' impact/value of this social innovation, the personal stories of two sister members are included. This interpretive approach provides more convincing evidence that the introduction of a novel business model by Lijjat has contributed to the empowerment of its women members.

The two individuals concerned are Priti, the elected Vice President and Gita, a Lijjat sister from the Bandra, (West) branch who are both over sixty years of age. Their accounts have been selected because their attitudes are clearly entrepreneurial and each has carved her own entrepreneurial career according to her circumstances.

Priti has risen through the ranks by undertaking additional administrative responsibilities. She continues to be actively involved in the day to day operations of the Bandra (West) branch in the capacity of Sanchalika (or branch head). Box 1 that follows provides an insight into Priti's entrepreneurial career built by undertaking administrative and executive responsibilities. From Box 1, we can see that Priti began her entrepreneurial career in Lijjat way back in 1973 by rolling out papads. She then undertook several administrative responsibilities to advance her career. Her entrepreneurial energy is reflected in the fact that even at the age of sixty she holds two posts in Lijjat: one of *Sanchalika*, Bandra (West) Branch and the second as the Vice-President and member of the Central Management Committee.

The illustration in Box 1 depicts how Priti's long association with Lijjat enabled her to actively engage in the process of her empowerment. This can be seen as the social impact (or social value created) of the social innovation.

Box 2 provides an insight into Gita's entrepreneurial career built by undertaking more physical labour. From box 2, we can see that Gita has also pursued an entrepreneurial career. She has managed to enhance her entrepreneurial income from Lijjat by engaging in more physical labour. Further, she has successfully engaged her family members in supporting her entrepreneurial initiative. Her entrepreneurial energy is reflected in the fact that she rolls out 25-30 kgs of papad in a single day which is 5 to 6 times the minimum level (of 5 kilos of dough) stipulated in her membership pledge. Thus, Gita's story reflects how she has actively engaged in the process of

her empowerment by undertaking more physical labour during the forty five years she has spent in Lijjat.

### **BOX1: Priti – Epitome of women’s empowerment**

Priti, Vice President of Lijjat is a sixty year old soft spoken lady hailing from the Gujarati community in India. In the office, which she shares with other members of the Central Management Committee of Lijjat, she appears relaxed in her familiar surroundings. Priti answers the interview questions confidently and intermittently signs scholarship cheques in the capacity of authorised signatory. Priti joined Lijjat in 1973 by rolling out papads. She was introduced to the organisation by a female neighbour. She joined Lijjat because she felt that she could earn a regular income while maintaining her home as housewife. She recollects that she received regular training from the organisation. Gradually, she got additional work through her deputation into the packaging section where she spent the next ten to twelve years. Thereafter, she was given the responsibility to travel to new branches to train new recruits. She was then promoted to the post of *Sanchalika* or Branch head, Bandra (West), a role she continues in today. Later she became a member of the Central Committee when she was elected to the post of Vice President. Today she holds both these posts and has no plans for retirement.

Priti typically works seven days a week visiting the Bandra (West) branch 2-3 times a week arriving there at 5 AM and overseeing its operations until about 10:00 AM. Then she goes home to lunch and to rest before returning to the head office at around noon to perform her corporate responsibilities. She leaves the office in the evening around 7-8 PM depending on the workload. Priti reports that Lijjat has made a massive impact on her personal life so much so that even at the age of sixty she can’t contemplate a life without Lijjat. She elaborates that her employment with Lijjat provided a second income to her family that enabled her children to attend University. Her sense of pride and achievement is evident from her statement that *‘from the beginning I earned more than my husband’* who worked for the State Government of Maharashtra. She adds that the daily remuneration she receives from Lijjat means that she is never short of cash and that she is not dependent on her husband or family for money.

In a reflective mood, she states that she was lucky to be able to bank on her cooking skills to earn a living while having the flexibility to work from home. In addition, the informal set up at work means that she can be her own boss while building friendships with other sister members. She is quick to add that she feels that *‘she is part of the Lijjat family’*. Today, though her son is working as a journalist and monetarily she is well off, she feels that coming to Lijjat helps her to maintain her health. In fact, she points out that even a day off from work makes her unwell and she starts missing Lijjat. She explains her point by stating that some years back her husband suffered from kidney failure requiring constant care. This care was provided by her son while she continued with her regular work. Eventually her husband passed away but she continued working for Lijjat. She concludes the interview by pointing out that *‘Lijjat has become a part of my life’*.

### **BOX2: Gita's story – Dignity of Labour**

Gita is a middle-aged woman working in Lijjat's Bandra (West) branch in Mumbai. She joined the enterprise forty five years ago. Her husband is long-term unemployed which means that her income supports her entire family. She explains that her children and even her daughter-in-law help her with papad rolling at home. Together the family rolls out 25-30 kilos of papad dough in a single day. She proudly states that working here has given her hope and courage so that she can earn as much as she pleases through hard work.

Gita points out that her family has benefited from her work with Lijjat. For instance, the family has a regular source of income to which each member can contribute by helping out in the evenings. The income has enabled Gita to pay for her children's education and her family's basic needs. She has been able to arrange her daughters' weddings. Gita elaborates that over the years she has earned 25 tolas (grams) of gold and silver as distributed profits from Lijjat, which have helped her provide handsome dowries for the weddings of her two daughters. She explained that in recent years the surge in gold prices has meant that profits are now distributed as cash or cheques. Last year, she received a cheque for Rs. 15,000 (approximately 200 pounds) as distributed profits and her children received scholarships for their outstanding performances at school.

Gita reports that women like her have benefited immensely from Lijjat as they lacked basic education. She mocks that the manual work provides her with a good workout without which she feels lazy. Upon further reflection, Gita offers that this work has helped her to '*fight with the world*' so that she can survive even though her unemployed husband is unable to provide any financial support. She adds that today, at sixty five, she is unable to leave this work, since in both good and bad times Lijjat has been there for her. She concludes the interview by stating that most of the women in her neighbourhood work in Lijjat and she has made a number of lifelong friendships with other sister members here.

## **5.4 Chapter summary**

This chapter presents the within-case analysis of social innovation at Lijjat. The social innovation identified was the introduction of a novel business model based on a new business ideology *Sarvodaya*. Then, the cultural and historical contexts are considered as previous research has highlighted the context-specificity of social innovations (e.g., Tapsell et al., 2010). Further, the organisational context is outlined to illustrate how the organisational culture and structure reflect



the principles of the *Sarvodaya* ideology. The key findings from a detailed analysis and discussion using the social innovation framework developed in Chapter 3 were:

- 1) The recognition of patriarchal restrictions and employment barriers represented an opportunity for women from a common socio-economic background to coalesce and create a joint initiative;
- 2) In the initiation period, innovative practices evolved in this initiative influenced by the principles of *Sarvodaya*. These were institutionalised in the development period and then the modified business model was replicated through a number of diversifications in the scaling period;
- 3) The social innovation developed under resource constraints. Financial capital was lacking throughout the process and this spurred a number of financial innovations such as the development of a daily accounting system. Further, as basic human capital was lacking, the women developed their task-specific human capital through learning by doing;
- 4) Social capital was identified as an enabler in this social innovation. Its extensive leverage helped to overcome resource constraints.

In summary, this case suggests that social innovation in for-profit SEVs involves the introduction of new business models under resource constraints. This supports previous claims that social entrepreneurship is a means of validating new business models (Santos, 2010) and that ventures founded by feminists reflect their founders' ideology resulting in relatively flat, non-hierarchical structures (Kassam et al., 2002).

## Chapter 6: Case Study 2 – Mahiti Infotech

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### 6.1 Introduction

This chapter examines in detail the social innovation in the second case study organisation, Mahiti Infotech Pvt. Ltd., popularly known as Mahiti. Mahiti is a for-profit SEV, whose co-founder received the Ashoka<sup>1</sup> fellowship for providing affordable and effective IT solutions to the Indian voluntary sector. Mahiti has an atypical business model for an IT firm. First, it is a pioneer of the Free and Open Source Software (FOSS) movement in India and serves the voluntary sector. Second, the ICT applications it develops are based on the open-sourcing ideology with its core principle of open-sharing of knowledge with clients. Thus, in several ways the case exemplifies the successful application of a new, open-source ideology in a business model with well-defined social objectives.

This chapter presents the within-case analysis of the case study and follows the structure adopted in Chapter 5. In the first section, the organisational objectives are set out, and then the social innovation is identified as the initiation, development and scaling of a new business model based on open-source ideology with clearly defined social objectives. Then, the cultural context is detailed that describes how the application of the open-source ideology enhances the affordability to accessibility of ICT services for social sector organisations in India. This is followed by a historical account of the social innovation and then the organisational context is explicated. This includes illustrating how the organisational structure and culture of Mahiti reflect its open-source ideology. In the second section, the case analysis and discussion is presented that uses the social innovation framework (Figure 3.1) as a template. This includes mapping the social innovation process of Mahiti followed by a detailed analysis and discussion along three themes: 1) the social innovation process, 2) capital combinations in the social innovation process and 3) value creation. Quotes from interviews (M1-M7) with organisational informants are included in the chapter.

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Ashoka<sup>1</sup> The Ashoka Fellow program provides grants to social entrepreneurs working on radical social innovations, its over 1200 recipients form a worldwide network (Bornstein, 1998; Drayton, 2002)

## 6.2 Case background

In this section, the organisational objectives and social innovation in the second case are identified and its historical, cultural as well as organisational contexts are presented in line with the interpretive paradigm adopted in this study. The interviewees' details are given in Table 6.1.

**Table 6.1 Overview of interviewees in Mahiti**

| Interviewee   | Role                          | Gender | Age   | Tenure     | Class        | Education     | No of times interviewed |
|---------------|-------------------------------|--------|-------|------------|--------------|---------------|-------------------------|
| Vijayant (M1) | Technical director            | male   | 30-39 | since 2002 | middle class | post-graduate | 2                       |
| Suneet (M2)   | Chief of design               | male   | 30-39 | since 2002 | middle class | post-graduate | 1                       |
| Shekhar (M3)  | CEO/co-founder                | male   | 40-49 | since 1997 | middle class | post-graduate | 2                       |
| Sunny (M4)    | Executive director/co-founder | male   | 40-49 | since 1997 | middle class | post-graduate | 1                       |
| Prashant (M5) | Business development manager  | male   | 40-49 | since 2008 | middle class | post-graduate | 1                       |
| Anna (M6)     | Business partner              | female | 30-39 | since 2006 | middle class | post-graduate | 1                       |
| Govind (M7)   | Micro-entrepreneur (client)   | male   | 30-39 | since 2008 | middle class | graduate      | 1                       |

### 6.2.1 Organisational objectives

Mahiti is structured as a for-profit SEV located in Bangalore, India. Its mission as outlined on its website is to:

*'Empower clients to reduce the cost and complexity of Information Technology through the strategic use of Free/Open Source Software'.*

(Mahiti, 2011a)

The organisation's objective can be seen as a social mission as it enhances the affordability and accessibility of ICT services for social sector organisations. The centrality of the social mission in determining the operations, strategy and structure of a social entrepreneurial venture is

emphasised in social entrepreneurship literature (e.g., Dees, 1998; Austin et al., 2006). In the case of Mahiti, its social mission helps Mahiti in the development of new ideas as reflected in this quote:

*“Mahiti believes that Web-based Technology Solutions and Web Tools like YouTube can be used by social sector organisations to reach out to the masses and create social awareness” (M1)*

Similar views are echoed by Shekhar, the co-founder of Mahiti:

*“We are a for-profit social enterprise. In our letter of incorporation it is mentioned that profit will be used to support our social mission of providing affordable and accessible IT services for the social sector. Thus, Mahiti is a new organisation model for social enterprises in India” (M3)*

Having seen the organisational mission, in the next subsection, the profile of the client organisations and their target beneficiaries are considered.

### **6.2.2 Identifying the social innovation**

As detailed in Chapter 5, new business models introduced by SEVs which provide sustainable solutions to social problems can be regarded as a social innovation (Santos, 2010; Seelos & Mair, 2005). Based on this line of thought, the author concluded that the novel business model of Mahiti that is based on an alternative ideology-open-source software development represents a social innovation. This is because this model enabled enhanced the accessibility and affordability of ICT services for social ventures as well as their beneficiaries.

This conclusion is well supported by evidence from the case data, that is, secondary data on the organisation (Mahiti) and the primary data gathered through semi-structured interviews from organisational informants. In the secondary data sources the author reviewed, that is organisational and peer networks' website. For instance, Ashoka's (the world's largest network of social entrepreneurs) website lists Sunny, the co-founder of Mahiti as an Ashoka fellow. Further, the Ashoka fellowship was awarded to Sunny in 2002 to enhance the use of open-source software in the voluntary sector in India (Ashoka, 2011a). Since then Mahiti, has developed a number of ICT systems or tools that use or advocate or contribute to the application of FOSS. Table 6.2 summarises the occurrence of the practice of open-source ideology in Mahiti from the quotes extracted from nine interviews with participants.

**Table 6.2 Practice of open-source ideology at Mahiti**

| Principles/Practice                          | Interview Quotes  |
|--|---|
| Free distribution of FOSS-based IT tools.    | <i>"We have developed a collection of FOSS tools for running non-profits organisations called NGO-In-A-Box. This tool box can be freely downloaded from our website along with the user manuals. We are also developing another FOSS-based management information systems called 'OurBank' that is specifically designed for micro-finance institutions (MFIs) and self-help groups. We plan to distribute it freely." (M2)</i>   |
| Sharing source code with clients             | <p><i>"We have practised open-source software philosophy and don't charge annual licence fees. Instead, we openly share the source code with our clients. Even to our commercial clients we insist that any savings made in the IT projects by using open source software should be used for social causes." (M4)</i></p> <p><i>"We share the source code as Mahiti believes in sharing knowledge and that intellectual property is better to share with clients. It is good at evolving technology that can be shared across generations and by sharing we can only help in sustaining new knowledge." (M3)</i></p>  |
| Building open-source communities             | <p><i>"We have started using community networks of University students to generate more and more software code. We provide certification to engineering students from Universities in Bangalore through summer internships. Some of these students are now involved in our community network in which Mahiti is a pioneer in Bangalore. We now have a community of 42 to 52 people mostly students who are involved in open-software code generation." (M1)</i></p> <p><i>"In these community projects, Mahiti acts as a coordinator and provides time, energy and costs for the project. In the future, by building open software community in this manner we hope to reduce our software development costs." (M1)</i></p> |
| IT systems developed without annual license. | <i>"We believe that technology can be used for social change. For example, suppose an NGO has a Rs. 80,000/- grant (about pounds 10,000). Paying for licensed software like Microsoft would cost up to Rs. 80,000/- in annual license fees itself. However, if open source software is used, this may be done in Rs. 30,000/-. The savings made in this way can be used for implementation or training needs of the NGO's staff." (M1)</i>  |

Source: Fieldwork, 2009

### **Distribution of free FOSS-based IT tools**

In line with the open-source ideology, Mahiti has developed a number of FOSS-based IT tools which can be downloaded by users from its organisational website free-of-cost. Suneet provides

examples of freely distributed FOSS tools developed by Mahiti in this quote:

*"We have developed a collection of FOSS tools for running non-profits organisations called NGO-In-A-Box. This tool box can be freely downloaded from our website along with the user manuals. We are also developing another FOSS-based management information systems called 'OurBank' that is specifically designed for micro-finance institutions (MFIs) and self-help groups. We plan to distribute it freely."* (M2)

Scholars argue that open-source presents a paradigm shift in software development as in it users program to solve theirs as well as shared technical problems, and freely reveal their innovations (Hippel, & Krogh, 2003). In contrast, proprietary software such as Microsoft's Windows can be used only on purchasing an annual license. This implies that proponents of open-sourcing aim to enhance the accessibility and affordability of software for a wider audience which emphasises the social nature of such innovation.

### **Sharing of source code with clients**

A main principle and practice of open-source development is the collaborative process of distributed co-creation with the end-user or client (Bughin et al., 2008). In this process, developers share the source code (programming language) with the client enabling them to make modifications. This can be seen as a means of empowering the client as seen in the quote by Sunny (M4) in Table 6.2. Shekhar explains the principle of open sharing of the source code by stating that "*Mahiti believes in sharing knowledge and that intellectual property is better to share with clients.*" (M3)

The above quotes suggest that open-sharing of source code with client is in essence a form of knowledge sharing that enables new knowledge (or innovation) to spread. Previous research suggests that knowledge sharing strengthens customer networks and provides firms with greater opportunities for innovation (Jørgensen & Ulhøi; 2010). This is because customers often reciprocate by sharing their feedback on the IT system or share any modifications which the IT developer could use in future innovation projects.

### **Building open-source communities**

Another practice of open-source software development is the use of user communities in creating, shaping and disseminating innovations (West & Lakhani, 2008). Mahiti has recently started building communities of engineering student programmers for developing software.

### **Developing Software without annual license fees**

Finally, open-source software development (unlike proprietary software) does not attract an annual licence fee. This helps client organisations reduce their IT-related costs as explained in Table 6.2 by Vijayant (M1), who also reports that *“The savings made in this way can be used for implementation or training needs of the NGO’s staff.”*

The above quote suggests that FOSS-based software development can significantly reduce the ICT costs for organisations. Such savings are especially important for NGOs (Non-Governmental Organisations) who are dependent on external grants. These savings could be deployed in more productive areas such as staff training thereby ensuring a better return on the ICT investments.

To summarise this section, Mahiti’s atypical business model reflects the principles of open-source ideology. Evidence from the case study suggests that the practice of open sourcing enhances the affordability and accessibility of ICT services for social sector organisations. In other words, Mahiti is a for-profit, social entrepreneurial venture that has developed a sustainable solution (specifically, FOSS-based ICT services) to meet the unique ICT needs of the social sector.

### **6.2.3 Cultural context: ICT accessibility in India**

Since the 1990s, India has emerged as a major global player in software development (Arun & Arun, 2001). The Information Technology (IT) sector in India has contributed to economic development by exporting ICT services and creating employment for skilled workers. Researchers have argued that developing countries like India can also use ICT tools such as mobile phone technology and the internet to facilitate the access of information for marginalised populations (Avgerou, 1998; Kenny, 2003). This is important as marginalised groups are often excluded from the social networks of the more privileged classes which limit their ability to access useful information that exacerbates their exclusion (Walsham, 2001). In such a scenario, enhancing access to information can contribute to socio-economic development. This is perhaps best explained in this quote by the Nobel laureate Amartya Sen:

*“Access to information is one of the arrangements that society makes (others beings education, healthcare) which influences the individual’s substantive freedom to live better”* (Sen, 1999, p. 39).

Scholars caution that while deploying ICT for information dissemination, the providers must ensure that such information is compatible and meaningful (Bhatnagar, 2003; Walsham, 2001) to the needs of the targeted populations. For instance, language or IT literacy can be barriers to the

successful application of ICT for development projects. These barriers are described in this quote from an interview with Shekhar:

*"During my years in Samuha, I worked on several development projects in remote areas of Karnataka. This made me realise the challenges of social sector organisations. For example, the target beneficiaries were rural folk who spoke regional languages whereas the content of websites of these organisations was in English." (M3)*

From the above quote, we can construe that several cultural barriers exist in India such as language and literacy that limit the application of ICT for development initiatives. In this regard, IT service providers who enhance the accessibility of IT can contribute to the process of empowerment of marginalised groups. For instance, Mahiti has developed IT systems using open-source software with multilingual capabilities this enables speakers of regional languages to access information. Vijayant explains his expertise in this area in this quote:

*"My skills lie in technology consultation, design and in localisation which is translating IT information in 5 to 6 regional languages so that IT is accessible to the masses in India. I now believe that technology can be used for social change." (M1)*

By using regional languages, ICT service providers can deliver appropriate and meaningful information to the target beneficiaries thereby contributing to their development. To illustrate, Mahiti is involved in a collaborative project called MySME news that provides customised business services to micro-entrepreneurs in Kolkata. These services are delivered through print media (a free bi-monthly newsletter) and mobile texts in Bengali, the regional language. Suneet, Chief Information Officer, Mahiti explains this in this quote:

*"We are presently offering business information services to micro-entrepreneurs in Kolkata through a bi-monthly newsletter which is available free of charge and is published in Bengali the local language. Besides this we are piloting a mobile text-based information service also in Bengali" (M1)*

Previous research suggests that ICT deployment in developing countries implies provision of compatible and meaningful content for local populations (Bhatnagar, 2003; Walsham, 2001). Further, providers need to understand how information is perceived in different cultural contexts (Díaz Andrade & Urquhart, 2009). Supporting these claims, the findings from the Mahiti case indicate that cultural context such as the local language are relevant to the development of ICT-based social innovations. In summary, this section has demonstrated how context influences the development of an ICT-based social innovation in a developing country.



## **6.2.4 Historical context: tracing the social innovation**

In this sub-section, the evolution of the social innovation is traced from its foundation year in 1997 through to 2009 the time when data was collected in the field. Figure 6.1 provides the timeline for the social innovation highlighting the key events from the organisational history and accounts of organisational informants.

### **6.2.4.1 Initiation phase (1997-2002)**

In 1997, Shekhar and Sunny (the co-founders of Mahiti) worked as colleagues in the IT department of Samuha, a large NGO in the Indian state of Karnataka. They gained invaluable experience in the field (industry specific human capital) while working on several development projects in remote villages. As Shekhar explains:

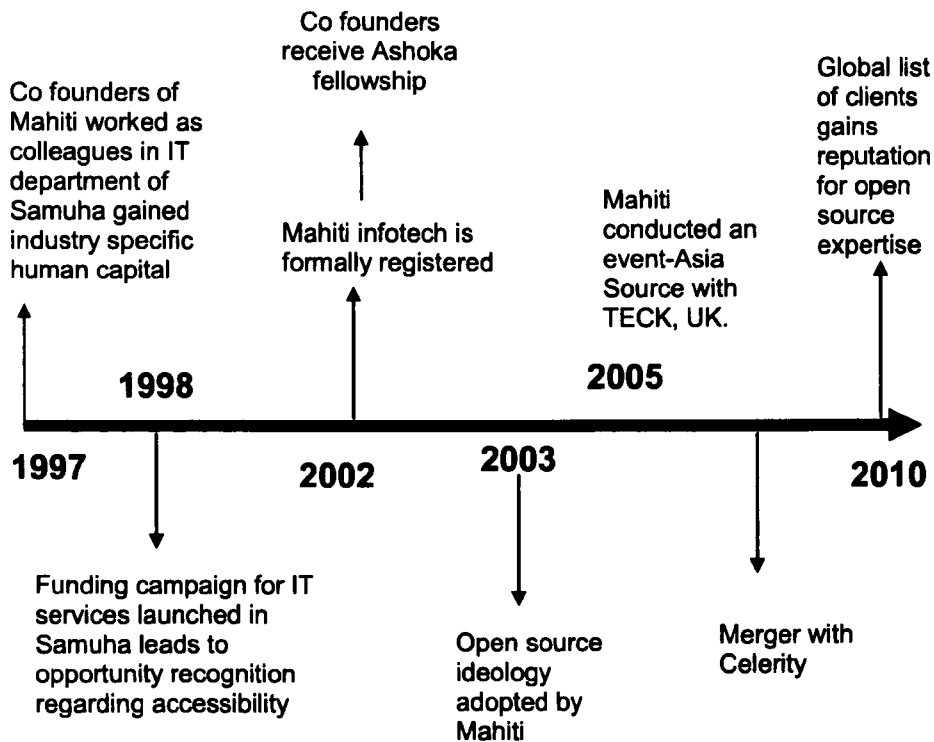
*“After my engineering degree, I took up a job in an NGO called Samuha where I was part of the IT team and I gained valuable experience in the social sector.” (M3)*

In executing developmental projects for Samuha, the co-founders of Mahiti recognised barriers to the deployment of ICT services for development initiatives. This learning is reflected in this quote from another interview with Shekhar:

*“I was able to realise the challenges and the feasibility of social projects while working in the field. For example, telephone lines were not right for the coming of the internet. I also observed that another problem (at that time) for the application of the internet to deliver social sector services such as information dissemination was that all the content on the Web was in English. People who spoke regional languages could not access the internet. I also learnt how things worked in the social sector.” (M3)*

As the above quote suggests, the co-founders recognised accessibility issues with the deployment of ICT services for development projects. First, infrastructure was lacking to deliver internet-based services. Second, the target beneficiaries were located in remote villages and spoke regional languages while the entire content on the Web was in English. These observations would later inform the co-founders’ development of a social entrepreneurial opportunity.

**Figure 6.1 Key events – Mahiti (1997-2002)**



Source: Fieldwork, 2009

The idea of providing ICT services customised for the social sector was originally proposed by Pradeep, the Manager of Samuha as Shakhar recalls in this quote:

*"A year later during a brain storming session, a new decision was made to start a new project in Samuha for IT. The idea was incubated by Mr Pradeep, the then head of Samuha. Thus, initially till 2002, the IT team that now forms part of Mahiti was part of Samuha." (M3)*

Based on the above quotes, we can conclude that the co-founders of Mahiti recognised a social entrepreneurial opportunity, that is, the existence of accessibility issues for deployment of ICT for development projects in the social sector. They also conjectured a solution, that is, to start a SEV with the aim of providing low cost ICT solutions to the social sector. The co-founders were joined by one of their clients – Murray Curranshaw, a social intrapreneur who was a senior executive in Oxfam India. These events finally led to the launch of a new venture-Mahiti Infotech in 2002 which was formally registered as a for-profit SEV.

#### **6.2.4.2 Development period (2002-2006)**

Following its registration, Mahiti began its operations with the start-up capital being provided by the founders without any form of donation or subsidy. Within the first year of operations, Suneet, the co-founder of Mahiti was awarded the Ashoka fellowship as this quote suggests:

*“Suneet received the Ashoka fellowship of Rs. 8000/- (about £100) (Ashoka, 2011) to encourage Free and Open Source Software application for the volunteer sector in India. This was a major achievement for us as it enabled us to gain access to a global network of social entrepreneurs” (M1)*

During the development phase, growth was largely achieved through internally generated funds while adhering to cost reduction strategies such as stringent financial management, and accounting controls. Mahiti also raised revenues by providing IT training to fee-paying clients. In 2003, the management decided to adopt the open-source ideology for software development and began developing in house expertise in this area. Eventually, Mahiti became one of the pioneers of the open-source movement in India. In 2005, a major milestone was achieved when the enterprise collaborated with a UK firm for conducting an IT event in Bangalore. As Shekhar recalls:

*“In 2005, we conducted an IT event in Bangalore called Asia Source with TECK from the UK which attracted people from 42 countries and lasted eight days. This event provided us with a potential list of clients and future partnerships” (M3)*

Mahiti capitalised on the clients' network established during the above mentioned IT event as well as the Ashoka fellows' network. This enabled the organisation to initiate a number of collaborative projects with clients. Further, sharing of the source code (as per open-source ideology) with clients helped Mahiti to strengthen its networks. An example is the MySME News Project which is a collaborative project between Mahiti (technical partner), Internews Europe (a media NGO) and Plural India (a social enterprise) that is partially funded by the

European Union. Anna, the Project Coordinator from Internews Europe, explains:

*“The idea of MySME news was conceived by our Director, John West with Mahiti as the technical partner and Plural India as local partner in India. At present, me and Shekhar are jointly managing the project with Mahiti doing the day to day running of the project” (M6)*

In the MySME news project, finance for the initial phase was raised by Internews Europe from the European Union while a business model was being developed to ensure the project's sustainability. The leveraging of customer networks in this manner helped the enterprise to eliminate marketing costs and provide repetitive business. Thus, during the development phase,

Mahiti developed a strategy of co-creation of ICT systems with clients based on free and open source software.

#### **6.2.4.3 Scaling period (2007-2009)**

The scaling period in a social innovation depicts a period of accelerated growth (Pol & Ville, 2009). In Mahiti, this phase began in 2007 when the organisation achieved rapid organic growth through internally generated funds. This conclusion is based on analysis of interview data. Specifically, interview accounts of Mahiti's Executive Director, Technical Director and Chief Design Officer all mention 2007 as an important milestone. For instance, Shekhar, recalls:

*"The next milestone was in 2007 when Celerity was merged with Mahiti. This merger had many benefits, it allowed us to gain access to a wide network of clients, we increased our skill set and most importantly it increased our management bandwidth."* (M3)

Similarly, Vijayant, Technical Director and founder of Celerity, the company that merged with Mahiti remembers:

*"While working with Mahiti, I realised that there was some form of synergy between our enterprises. We were able to complement each other so after six years of associating with Mahiti, we decided to merge in 2007."* (M1)

Analysis of case data by the author suggests that Mahiti has developed its in-house expertise in open-source software development in three different ways: 1) research & development activities; 2) recruitment & training; and 3) open source community development.

#### **Research and Development**

Research and development is actively pursued by the core team and employees in Mahiti. For instance, in this interview excerpt, the Chief Design Officer explains how the core team keeps in touch with the latest developments in technology:

*"We are constantly searching for new technology. We regularly read blogs, internet networking sites that cater to new technology professionals. Through social networking websites like Facebook and Twitter we are able to gain access to other professionals looking at cutting edge new IT Technology."* (M2)

Similarly, employees are encouraged to be innovative as suggested in these excerpts from interviews conducted with two members of the core team. First, Shekhar explains how innovative thinking is encouraged within the organisation:

*"We encourage thinking out of the box. We try to create an informal relaxed environment to encourage creativity. We conduct team building exercises to strengthen our team interaction. We want to grow and innovate in every aspect. We want to follow innovative human resource practices such as team building exercise."* (M3)

Mahiti conducts a number of activities designed to foster creative thinking amongst its employees. First, employees are asked to conduct weekly research on developments that may impact Mahiti. Second, organisational members share their field experiences with each other including problems faced during IT implementation. This is reflected in Vijayant's response:

*"We try to encourage creativity amongst our staff right from recruitment stage. Two days in a week about one hour (that is, Wednesday & Friday) is dedicated for research. Employees individually search for new information that may impact Mahiti and then reassemble and share the information. Our customer interaction in the various projects has made us aware of a number of accessibility issues regarding IT, we share concerns within the team. We believe every employee has to be creative and must be responsible for their new ideas. In case of failure, we encourage our team members to share the lessons learnt in the process."* (M1)

Similar innovation activities are carried out in Mahiti's Kolkata office as indicated in this excerpt from an interview with Prashant, the Business Development Manager:

*"Our circulation executives conduct market research on a weekly basis and they report this back to the editorial team of the newsletter. We also have regular group meetings amongst the chief editor, editorial team, distribution team and four citizen reporters. This helps us in sharing information and learning."* (M5)

Market research helps to develop a better understanding of user needs (Hippel, 2005). Organisations increasingly engage customers in gathering market information for identifying new market opportunities and customer needs (Cooper and Kleinschmid, 1993). In interviews held with subscribers of the MySME newsletter, a significant modification was reported as reflect in this interview with Govind, a micro-entrepreneur:

*"I regularly give feedback to the circulation executive and there has been a lot of change in the newsletter based on mine and other people's feedback from this market"* (M7)

Finally, Mahiti has begun developing open source communities for software coding as a means of cutting its software development costs (Mahiti, 2011b). Vijayant explains:

*"We also incubate projects especially we are trying to build a community of mainly Engineering students based in Bangalore. We have a dedicated person to build such communities which will generate resources through open plan software and will eventually become a product. In these community projects, Mahiti acts as a coordinator and provides time, energy and costs for the project. In the future, by building open software community in this manner we hope to reduce our software development costs."* (M1)

At the time of collecting data in 2009, Mahiti had crossed another important milestone, that is, its staff strength had crossed fifty. Explaining the significance of this, Shekhar states:

*"Another milestone for us is when our staff number crossed fifty. This magic number has made a big change in how clients and the general public respond to us. I guess when an IT company crosses the 50 people mark; its image and reputation totally change."* (M3)

In terms of client organisations, Mahiti has worked with 1000 companies (Mahiti, 2011a) with a growing international customer base in US, UK, Australia and Africa. To summarise, in pursuing the open source ideology in software development, Mahiti appears to have created a niche for itself in the highly competitive IT market by focusing on serving the social sector.

### **6.2.5 Organisational context: mission, structure and culture**

In this section, the organisational context is detailed in order to identify how the organisational structure and culture reflect the open-source ideology.

#### **6.2.5.1 Target beneficiaries**

Mahiti has both direct and indirect beneficiaries of its ICT services. The direct beneficiaries are the client organisations whereas the indirect beneficiaries are the clients (often marginalised groups in society) of the client organisations. Mahiti's direct beneficiaries include both voluntary and for-profit organisations but with a clear social mission (Mahiti, 2011a). As Mahiti designs IT systems using open-source software, the financial costs of IT projects for its clients is significantly reduced. These benefits were outlined in this quote from an interview with Suneet:

*"Mahiti shares the source code with its client organisations which helps them to manage, maintain and change the content without the intervention of any technically qualified staff or system administrator. We also encourage our larger, commercial clients to contribute the bulk of their savings from using open-source software to social causes"* (M1)

Similarly, Mahiti has developed and disseminated FOSS-based tools such as NGO-In-A-Box and OurBank MIS system (Mahiti, 2011a). Besides, dissemination of software solutions and knowledge sharing, FOSS-based IT systems save client organisations annual license fees. The Technical Director compares the two alternatives in this quote:

*"Paying for licensed software like Microsoft would mean shelling out Rs.50,000/- to Rs. 80,000/- in annual license fees itself. However, if open source software is used, the NGO may be able to get a software system for as little as Rs. 30,000/-."* (M1)

Mahiti also provides training for its client organisations which can enable them to modify the systems as per their needs. Mahiti has worked with diverse civil group organisations in India to enhance accessibility of ICT systems by providing multilingual software. In its ten year history, the SEV has served nearly 1000 client organisations ranging from large, multinational non-profits like Oxfam, India, The Body Shop to small-sized social sector organisations like Navgati and Rangshankara. Thus, social sector organisations are the direct beneficiaries of Mahiti's FOSS-based software services.

The indirect beneficiaries of Mahiti's services could potentially be in thousands as the ICT systems it develops are used by social sector organisations in development initiatives targeting marginalised groups. For instance, the MySMEnews project which is one of Mahiti's collaborative projects provides free, customised business news services to thousands of micro-entrepreneurs in Kolkata in East India.

In this interview excerpt, the target beneficiary (a micro-entrepreneur from Jodhpur Park Market in Kolkata) explains the benefits of the MySME newsletter:

*"I started reading the MySME newsletter about six months back. I found the business information in the newsletter useful as it ties with my experience as an accounts student. I had basic accounting knowledge as an accounts student but column in the newsletter has helped me developed knowledge in specific areas and a general awareness of key business concept. For example, I have read tips in the newsletter on how to improve business such as goods collection, sales and marketing, customer dealing. I have also developed an appreciation of business concept like goodwill, transparency, honesty, ethical business and so on which are key to a successful business."* (M7)

The circulation of the MySME Newsletter at the time of collecting data in Phase 1 (July, 2009) was 25,000 and in Phase II the number was 100,000. The collaborating partner's representative, Anna, from Internews Europe, reports that:

*"We are now distributing 1000000 newsletters in Kolkata free of cost on bi-monthly basis. We estimate from our market research that this translates into a readership of about half a million micro-entrepreneurs in the city."* (M7)

From the above, it is clear that in the MySME news project alone, thousands of micro-entrepreneurs benefit from the customised business information services. Similarly, the freely distributed software tools such as NGO-IN-A-Box and OurBank, would also enhance the accessibility of ICT for a wider audience. Thus, the indirect beneficiaries of Mahiti's services are in thousands indicating that ICT services can create a wide impact in developing countries like India thereby contributing to economic and social development.

### 6.2.5.2 Organisation structure

Reflecting Mahiti's core ideology of open-sourcing, Mahiti's organisational structure can be described as 'flat and open' with few hierarchical levels. In Mahiti, the core team that is formed of the senior management is socially oriented whereas other members are divided into specific-domain teams with specific expertise in software. For each specific innovation project (ICT project), depending on the technical requirements, cross-functional teams are drawn who then interact to co-develop and implement the innovation project with client organisations. Shekhar explains the organisation structure:

*"Mahiti is committed to keeping a small core team. Our five member board is headed by Murray Culshaw, Ex-Director, Oxfam India. Besides the two of us, Suneet is Director for International and Institutional relations; Chethan Das is the Marketing Director; and Vijayant is our Technical Director. In addition, we have a senior advisory board which complements the board with their experience and knowledge. Mahiti's day-to-day operations are managed by the core team. Besides the core team, the fifty staff members are divided into domain teams."* (M2)

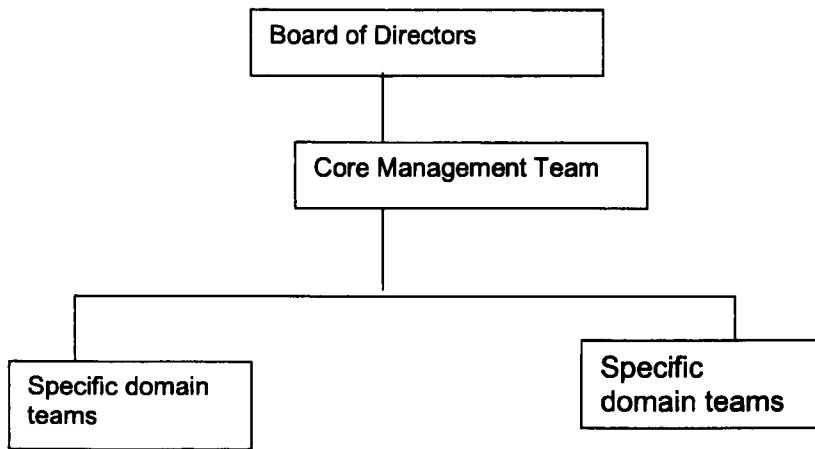
Innovation literature reviewed in Chapter 2 suggests that innovative companies encourage open communication across hierarchical levels and departments (Burns & Stalker, 1961; Martin & Terblanche, 2003). This helps to maximise the capture and evaluation of ideas as corporate entrepreneurs can tap into diverse sources of knowledge. In Mahiti's offices (both its headquarters in Bangalore and MySME News office in Kolkata), the author observed that senior management shared an open-office with employees that is likely to encourage more open communication. Further, interview accounts of the core team members suggest that group meetings and team activities were frequently held in Mahiti to encourage team interaction. The author also observed a staff meeting in Mahiti's office in Kolkata where citizen reporters and circulation executives were giving suggestions to the editor as well as the business manager regarding modifications for the content of the MySME newsletter.

Figure 6.2 illustrates the organisational structure of Mahiti. Previous research indicates that organisational members in innovative companies with open-structures are encouraged to participate in decision-making and problem-solving activities (Arad et al., 1997).

In the case of Mahiti, the nearly flat structure of the organisation coupled with the practice of forming cross-functional teams for each innovation project is likely to encourage a wider participation by employees. It may be recalled from our discussion of entrepreneurial innovation in Chapter 2, that previous research indicates that participative decision making and open communication are defining characteristics of innovative organisations.



**Figure 6.2 Mahiti – organisational structure**



Source: Mahiti

### 6.2.5.3 Operational strategy

Mahiti being a for-profit SEV has developed a unique operational model so that it can cross-subsidise its socially oriented projects with income generated in commercial projects. As Vijayant explains:

*"Mahiti is a for-profit enterprise. We have two types of projects. For 80% of our work we charge market rates to generate profits. These projects cater to large NGOs and charities. Our unique skill set enables to us to charge good rates. Second, 20% of our work is for social projects where we charge smaller social enterprises at or below cost charges. Thus, we cross-subsidise our social projects."* (M1)

Shekhar adds:

*"We follow variable costing for our clients. For small and medium social enterprises we charge minimum rate for our services, as low as 30% of cost or even free of cost. However, for large social enterprises, NGOs we charged commercial rate. Thus, our income from large organisations is used to cross subsidize smaller organisations in line with our social mission of promoting FOSS applications in India."* (M3)

The expanding customer base of Mahiti includes social purpose organisations in India and overseas. The client list includes The Body Shop, Amnesty India, Ashoka Foundation and Oxfam India (Mahiti, 2011a). Mahiti's expertise in Free and Open Source Software, its multilingual capability and the social orientation of the core team are key factors which provide the firm with an edge over other mainstream ICT service providers.

In terms of marketing strategy, the organisation's marketing costs are limited to the maintenance of the organisational website as this generates client queries. Shekhar elaborates in this quote:

*"Our only communication with external world is through our organisational website. We have excellent client references and are now able to get new IT Projects based on word or mouth itself. The website also generates a lot of interest. Nearly every day we receive inquiries from our website."* (M3)

The organisational website displays a number of client testimonials as well as showcases the client websites which illustrates its technical capabilities (Mahiti, 2011a; 2011b). Shekhar points out in his interview:

*"Nearly every day we receive queries through our website. We are able to receive a large number of enquiries as we possess unique domain knowledge and are willing to transfer knowledge."* (M3)

In the next subsection, the elements of the organisation's culture that promote open sharing of knowledge in line with the open-source ideology are presented.

#### **6.2.5.4 Organisational culture**

In line with the open source ideology, Mahiti's organisation culture is based on knowledge sharing and community participation in software development. In this sub-section, some of the practices undertaken by the organisation to promote open sourcing are discussed.

##### **Selection and orientation of new recruits**

The core values of open-sourcing ideology include open sharing of source code with clients and enhancing community participation in software development (Bughin et al., 2008; West & Lakhani, 2008). These core values necessitate an orientation towards open innovation and knowledge sharing amongst users of open-source software. In line with these requisites, Mahiti recruits individuals who can fit in with the core values of the organisation. This selection process was explained by Vijayant:

*"We recruit people with specific skills set which contributes to forty per cent of our knowledge base. The other sixty per cent of knowledge is imparted through in house training."* (M1)

Further, Mahiti recruits local people for IT projects so that their regional language skills could be used in interaction with target beneficiaries or in customising ICT content. For example, in the

Kolkata office, all the staff spoke/were familiar with the local language – Bengali. Shekhar explains how multilingual capability of staff members is a major strength of Mahiti:

*“We recruit local people for all projects. This means that client interaction and training can be conducted in the regional languages. Customer feedback we have gathered suggests that this is beneficial in increasing accessibility of ICT services for end users.” (M3)*

In the MySME news project the author visited in Kolkata, the newsletter containing customised business information was written in the local Bengali language. Further, the staff employed at the Kolkata office belonged to local communities familiar with the Bengali language as Prashant explains:

*“We have recruited four local people as citizen reporters and our circulation executives are also from the local communities. They collect customer feedback on a weekly basis that helps the editorial team to modify content accordingly. Everyone here is fluent in Bengali and our newsletter is also printed in Bengali.” (M5)*

The author then reviewed the client websites showcased on Mahiti’s official website and found that websites developed by Mahiti were in several languages – German, English as well as regional Indian languages such as Kannada and Bengali. From the above comments, we can see that Mahiti recruits people with specific IT and language skills who are then oriented towards the open-source ideology.

### **Encouraging Creativity and information sharing amongst team members**

Mahiti’s main expertise is in the area of open-sourcing which is an emerging area in software development (Lichtenthaler, 2011). In order to promote knowledge sharing, Mahiti encourages creative thinking amongst its team members. As Shekhar points out:

*“The idea is to think out of the box. We try to create an informal relaxed environment where creativity is encouraged.” (M3)*

Mahiti has undertaken a number of initiatives to encourage creative thinking amongst staff and in developing their human capital. For instance, the core team is constantly searching for new developments in IT technology including new applications of FOSS as Shekhar explains:

*“The core team keeps in touch with developments in software technology by attending seminars and conferences held in Bangalore and elsewhere. I personally keep in touch with the latest developments in open-source software technology through blogs and social networking websites with other software professionals in the world working in this area.” (M3)*

Similarly, when asked how he kept himself updated, the Chief Design officer of Mahiti replied:

*"I interact on Facebook and Twitter with other IT professionals. I also attend seminars, conferences and training workshops conducted in Bangalore by CIS (Computer for Internet Society). It is a non-government organisation that promotes knowledge sharing and best practices amongst IT Professionals in Bangalore. We also get ideas from other sectors besides IT by attending these seminars. The seminars have also helped me to network with other professionals in Bangalore – which you know is now well known globally as India's Silicon Valley." (M2)*

In Mahiti, team members are encouraged to share information and failure is seen as an opportunity to learn. Vijayant explains:

*"We are in the process of building a database or information repository based on learning from the various IT projects we have worked on. This database contains source codes for software developed and solutions to software problems which employees can view online." (M1)*

The above suggests that such a database would encourage information sharing amongst team members which in turn can enhance their problem solving capacity as IT professionals. Mahiti has also adopted a number of HR practices that encourage interaction amongst team members. The Executive Director explains some of these initiatives:

*"Team building exercises are conducted regularly. We have adopted a number of HR practices to increase staff motivation and increase retention. Staff are trained in IT applications and encouraged to take responsibilities of IT projects. A measure of the success of our HR practices is our average staff turnover rate is four years whereas the equivalent in the commercial IT sector in Bangalore is 18 months." (M4)*

Researchers have argued that human resources and their management are important drivers of innovation as innovation is a function of a firm's ability to create, manage and maintain knowledge (De Winne & Sels, 2010). Evidence from the case suggests that Mahiti focuses on the development of its organisational human capital through training and team building initiatives. This is likely to have contributed to enhancing the innovative capability of this for-profit SEV.

### **Open sharing of knowledge**

Researchers point out that knowledge sharing is a core principle of the open-source ideology (Lichtenthaler, 2011). This implies that IT systems developed using open-source software are usually co-created with clients or through user communities (West & Lakhani, 2008). Vijayant explains:

*"Development of new IT services is largely user driven. Ideas are generated through regular interaction with clients. In addition, customer needs are matched with the appropriate technology and customised as the case may be. Here, we believe in providing the lowest cost and most appropriate IT solutions for customer needs." (M1)*

The above quote suggests that Mahiti develops new IT systems (service innovations) collaboratively with its clients. In essence, this reflects the open-source ideology's core belief that intellectual property grows when it is shared. Sunny explains further how client needs are matched with appropriate and affordable technology:

*"For example, if the client needs to create an online social networking site, we may suggest them to use an existing social media networking site. However, if the client wishes we may customize a solution for them in case their budget allows. All the IT systems are co-developed with clients either with the IT department of client organisations or with the management team in case of smaller enterprises. We provide the source code and train our clients so that they can maintain the systems on their own."* (M4)

### **Developing student open-source communities & summer internships**

To reduce its software development costs, Mahiti has initiated the development of open-source communities of engineering students for software development. This strategy is explicated in this quote by Suneet:

*"The students in the open source communities are from India's premier engineering institute, IIT (Indian Institute of Technology), IIS (Indian Institute of Science) and other Engineering Colleges in Bangalore. We have a staff member fully dedicated to building these communities. In these community projects, Mahiti acts as coordinator and provides time, space and costs for the project. We have developed a community of nearly fifty students in code generation."* (M2)

Researchers investigating open-sourcing point out that the use of open source communities can enable organisations to create, shape and disseminate technological innovations at a lowered cost (West & Lakhani, 2008). This process is referred to as distributed co-creation of open-source software (Bughin et al., 2008). Vijayant explains how students are recruited through summer internships:

*"Engineering students are required to complete a project as part of their degree requirements. We offer students an opportunity to learn FOSS applications through a summer internship. These internships are offered on University campuses. This helps us to disseminate the open-source ideology amongst young IT professionals in Bangalore and enhance Mahiti's visibility."* (M1)

The students on summer internships in Mahiti are then asked if they would like to volunteer for community projects on open-source software. As the above two quotes suggest this enables Mahiti to develop a student community for code generation. In time, these communities would reduce the software development costs for Mahiti.

In summary, this section illustrates how the organisation structure and culture of Mahiti reflect the open-source ideology. Further, the discussions highlight the benefits that accrue to the organisation from open-sharing of knowledge. First, Mahiti's expertise in open-source has helped it to expand its customer base in a relatively short period of time. Second, clients share any changes they make to the ICT systems which can be utilized in future projects. This finding is in line with the view provided by Hippel (2005) that users often share their knowledge voluntarily to benefit from open sharing of knowledge.

### **6.3 Discussion of themes derived from the social innovation framework**

In this section the social innovation framework developed in Chapter 3 (Figure 3.1) is used to categorise the emerging themes from Mahiti's case findings.

#### **6.3.1 The social innovation process**

In this subsection, first the development of the social entrepreneurial opportunity is considered which triggered the social innovation process in Mahiti.

##### **6.3.1.1 Digital divide: an opportunity for open-sourcing**

Evidence from data presented in section 6.2 suggests that in the case of Mahiti, IT professionals working on development initiatives of a large well established NGO recognised the accessibility issues such as language barriers which can be seen as a social problem. Further, they realised that this represented an opportunity to innovate by setting up a for-profit SEV that could enhance the accessibility of ICT for the masses. Three aspects of opportunity recognition in Mahiti can be identified from the case data; recognition of digital divide; importance of human capital; collaborative development of solutions for the target beneficiaries.

##### **Recognition of accessibility issues by founding team members**

The co-founders of Mahiti recognised several barriers to ICT deployment for development initiatives. First, there were infrastructural constraints of deploying internet or ICT services in remote villages. Second, the target beneficiaries spoke regional languages while the information provided to them through ICT media such as internet was entirely in English. These barriers can be seen as a social issue as these restrict marginalised groups from benefiting from advances in ICT as summarised in Table 6.3.

**Table 6.3 Accessibility issues for ICT deployment for development initiatives**

| Issue  | Quotes from interviews   |
|--|--|
| Poor ICT infrastructure  | <i>"I was able to realise the challenges and the feasibility of social projects while working in the field." (M2)</i>  |
| Appropriateness of information available to target beneficiaries | <i>"I also observed that another problem (at that time) for the application of the internet to deliver services such as information dissemination was that all the content on the Web was in English. This was of little use to local people who spoke regional languages." (M2)</i> |
| Budget constraints of NGOs                                       | <i>"While working for Samuha, I realised that NGOs depend on donor agencies that provide budgets for certain activities. This tends to cripple the management of NGOs as they spend most of their time seeking approval or justifying their actions to their donors." (M2)</i>       |

Source: Fieldwork 2009

Evidence presented in Table 6.3 suggests that the co-founders of Mahiti were aware of the challenges of ICT deployment from their experience in the field. This finding is in line with findings from recent exploratory studies. For instance, Dorado (2006) uses examples of SEVs to back his argument that "mounting evidence shows a connection between the background of entrepreneurs and the opportunities they identify and exploit" (p. 336).

Further, the founders recognised the constraints of an NGO format from their field experience, as indicated by the third statement in Table 6.3. This could explain why they adopted a for-profit format for Mahiti without using government or donation funds. This finding warrants further research into how the availability (or constraints) of resources influences the choice of organisational format adopted by social entrepreneurs. Similar views were expressed by Dorado (2006) who states that "it would be quite interesting to pursue research questions that address the centrality of resources to the identification of opportunities and whether it is truly specific to SEVs" (p. 336).

**Importance of founders’ human capital**

Data presented in Table 6.4 suggests that two of the co-founders utilised their generic human capital (that is engineering degrees) in developing expertise in IT technology. They also gained industry-specific human capital by working at a large NGO called Samuha. Their combined human capital helped in recognising and developing the social entrepreneurial opportunity. In other words, the founders’ human capital was a major resource in the social innovation at Mahiti.

This finding supports claims made in previous empirical research that social entrepreneurs who found social enterprises were aware of social issues (Corner & Ho, 2010) and that previous managerial experience contributes to a social venture’s success (Sharir & Lerner, 2006). The importance of high levels of human capital for the success of new ventures has been emphasised in empirical studies conducted on new technology ventures in the commercial sector in the USA (Cooper et al. 1994) and in the UK (Westhead & Cowling, 1995).

**Table 6.4 Founders’ human capital: Mahiti**

| Human capital elements                                   | Quotes   |
|--|--|
| Generic Human Capital<br>educational attainment          | “After my engineering degree, I was looking for a job. I took up a job in an NGO called Samuha.” (M3)<br><br>“Sunny, my colleague, had been a social activist since his engineering days” (M2)   |
| Industry-specific Human Capital<br>prior work experience | ”In Samuha, I was part of the team that set up the IT system and I gained valuable experience. In 1997-98, we launched the first fund raising campaign in India. During my years in Samuha, I gained experience in the social sector. I was able to realise the challenges and the feasibility of social projects while working in the field.” (M2)<br><br>“In Samuha, I and Suneet were part of the IT team headed by Mr Pradeep.” (M2) |

Source: Fieldwork 2009

In Mahiti’s case, the industry-specific human capital helped the co-founders to recognise a social need, that is, the existence of barriers for the deployment of ICT services in the social sector. This then represented a social entrepreneurial opportunity to launch a new venture that could provide



affordable ICT services to social ventures. However, the influence of founders’ human capital on social innovation as evidenced in Mahiti demands further exploration in future studies.

**Collective action**

Collective action is another aspect of the social entrepreneurial opportunity pursued in Mahiti (see Table 6.5). For instance, the idea of providing affordable ICT services exclusively was incubated in Samuha, the NGO where two of the co-founders worked. Thus, the idea originated outside of the organisational boundary of the SEV, reflecting open innovation (Chesbrough, 2003). Further, the fact that the co-founder of Mahiti acknowledges that *“the idea was incubated by Mr Pradeep, head of Samuha”* reflects his collectivist orientation.

**Table 6.5 Collective action in Mahiti’s opportunity development**

| Collective action        | Quotes  |
|--------------------------|---|
| Initiation of a new idea | <p>“The idea did not exist in my mind. The original idea was incubated by Mr Pradeep, head of Samuha.” (M3)</p> <p>“In Samuha, I and Suneet were part of the IT team headed by Mr Pradeep.” (M3)</p>  |
| Development of an idea   | <p>“In 2002, I, Suneet and Murray registered Mahiti as a for-profit social enterprise” (M3)</p> <p>“The first milestone was when Mahiti conducted an IT event called ‘Asia Source’ with TECK from the UK. This event attracted people from 42 countries in Bangalore” (M4)</p>  |
| Scaling of the idea      | <p>“MySME news project is a collaboration between Mahiti, Internews Europe and Plural India” (M6)</p> <p>“I had my own business – Celerity. While working with Mahiti, I realised that there was some form of synergy. So, after 6 years, in 2007 we decided to merge” (M1)</p> |

Source: Fieldwork 2009

As indicated in Table 6.5, Mahiti was founded in 2002 by three professionals reflecting team entrepreneurship. Two of the founders had gained extensive experience while working on ICT projects for a large NGO. The third founder was one of their clients, a senior executive in a large,

multinational social enterprise. The development of opportunities in Mahiti follows the pattern observed in Corner & Ho's (2010) study, which found that actors who were aware of a social issue were likely to engage in interactions that would bring an opportunity to fruition. Thus, evidence suggests that opportunity development at Mahiti was the outcome of collective action of a team of social entrepreneurs with significant work experience in the social sector.

The pattern of collective action as evidenced in Mahiti's case is in contrast to the dominant discourse in extant literature that social entrepreneurs are heroic individuals (Peredo & McLean, 2006; Zahra et al., 2009). Scholars often glorify the social entrepreneur focusing on an individual's role rather than that of the collective (Nicholls & Cho, 2006) as the agent of social change. However, the collective action in social innovation as evidenced in Mahiti demands further investigation in future studies on social innovation.

#### **6.3.1.2 Temporal periods: Mahiti's social innovation process**

The three temporal periods – initiation, development and scaling – can be identified in Mahiti. However, as mentioned in Chapter 5, the social innovation process is dynamic and complex and this dynamism is best captured through a longitudinal study. Also, as with Lijjat, lack of data on failed ventures is a limitation.

##### **Initiation period (1997-2002): a new idea incubated at Samuha**

In the social entrepreneurship literature, scholars claim that in the initiation period of a new social venture (or a social innovation), a collective whose members interact frequently recognise a social issue or problem (Haugh, 2007). In the case of Mahiti, the co-founders of the initiative interacted with each other and gained invaluable industry-specific human capital as reflected in the quotes by the interviewee in Table 6.4.

These quotes suggest that he gained experience for five years in Samuha in areas such as setting up IT systems and fundraising. This work experience enabled him to build his industry-specific human capital which in future would provide Mahiti with a competitive advantage over commercial IT firms. Further, his frequent interaction with target populations of development projects made him recognise a social issue, that is, accessibility issues associated with applying IT for development projects. This finding supports claims made by Mumford (2002) that in social innovations, "problem identification or definition seems to be experientially based" (p. 263).

**Table 6.6 Initiation period activities**

| Activities  | Evidence from case study  |
|---|---|
| <b>Experimentation</b><br>Experience in developing a new idea incubated elsewhere in an NGO<br><br>Recognition of accessibility issues for ICT-based development initiatives<br><br>Recognition of constraints of NGO/non-profit format | <p><i>"The idea was incubated by Mr Pradeep, the then head of Samuha. Thus, initially till 2002, the IT team that now forms part of Mahiti was part of Samuha." (M2)</i></p> <p><i>"I realised the challenges and feasibility of social projects while working in the field. For example, telephone lines were not right for the coming of the internet. I also observed that another problem for the use of the internet in delivering social sector services such as information dissemination was that all the content was in English. People who spoke regional languages could not access the internet." (M2)</i></p> <p><i>"I realised that social enterprises cannot depend on donors/agencies as this creates rigidity and liquidity problems in running the social enterprise." (M2)</i></p> |

Source: Fieldwork, 2009

Previous research on social entrepreneurship indicates that following the recognition of a social problem or need, social entrepreneurs conjecture possible solutions for the same (e.g., Corner & Ho, 2010). In Mahiti's case, the conjectured solution (at least its initial version) to accessibility issues was developed by the then boss of the co-founders who headed the IT department of the NGO where they worked. This is reflected in the first quote in Table 6.6.

When the idea of providing IT services to social sector organisations was incubated in Samuha as a IT project, the co-founders of Mahiti (Shekhar and Suneet) recognised that this represented an opportunity to spin off a new for-profit venture that would provide affordable and accessible ICT services to the social sector. This is because while working in the IT project of Samuha, the co-founders of Mahiti recognised the constraints of the non-profit format of Samuha. First, they realised that the dependence on donor agencies made the management in non-profits pre-occupied with funding worries as highlighted earlier by Austin et al. (2006). Second, the management would need to seek prior approval from funding agencies before taking strategic decisions. The recognition of these constraints is reflected in the quote from the co-founder Suneet (M2) regarding budget constraints in Table 6.3. This quote suggests that he realised that the dependency on funding agencies in NGOs (non-profits) stifled their growth. This led him and Sunny (another co-founder) to think of setting up a new for-profit SEV which could provide

customised IT services to the social sector. In other words, the field experience of the co-founders in the social sector led to significant refinement of the initial idea.

To summarise, prior work experience made the co-founders of Mahiti recognise social issues, that is, the accessibility and affordability of IT for development projects. However, they also recognised that the conjectured solution – provision of IT services for the social sector – would be best achieved by setting up a new for-profit SEV.

Table 6.6 outlines the key activities of the initiation period of the social innovation at Mahiti. We can see considerable refinement of the idea that led to the creation of the business model of a new SEV.

#### **Developmental period: Formation of a new venture (2002-2006)**

In the case of Mahiti, the development period began with its formal registration in 2002 as a for-profit SEV with an explicit social mission to utilise some of the profits to support social sector organisations. In the same year, the open-source software ideology was adopted by the founders as they believed this would enable them to enhance the accessibility and affordability of ICT systems for the social sector. This practice was in contrast with the offerings of commercial IT firms based on proprietary software (Lichtenthaler, 2011). Mahiti gained recognition for being a pioneer of using Free/Open-source software for the voluntary sector in India. For instance, Sunny, the co-founder of Mahiti received the Ashoka Fellowship in 2002. Since then, this SEV has shared its source code with its clients in line with open-source ideology.

These findings support the claims made in previous research that ICT tools used appropriately can cater to the information needs of marginalised people in developing countries contributing to their development (Bhatnagar, 2003; Walsham, 2001).

Mahiti developed an operational strategy to cross-subsidise its services to smaller social sector organisations with profits made from serving larger NGOs, charities or even commercial organisations.

Mahiti's unique business model supports assertions made by researchers that social entrepreneurship involves the introduction of new business models (Santos, 2010) where business model is defined as the interconnected set of activities that create value by addressing a particular need (Zott & Amit, 2007). The innovative business model of Mahiti which is based on open-

source software development albeit with clear social objectives warrants further research on innovative business models in the area of social entrepreneurship.

**Table 6.7 Key activities during the development period of Mahiti (2002-2006)**

| Key activities                    | Evidence from case study   |
|-----------------------------------|--|
| Development of a social mission   | <i>"In 2002, we set up Mahiti as a spin-off from Samuha and registered it as a private limited company. It is a social enterprise, that is, entirely for-profit. In our letter of incorporation, it is mentioned that we will use some of our profits to support social sector organisations."</i> (M2)  |
| Development of the business model | <p><i>"Mahiti is a for-profit enterprise. We have two types of projects. First, 80% of our work is in commercial projects where we charge market rates to generate profits. These projects cater to large NGOs, Charities or even commercial enterprises. Our unique skill set enables to charge good rates. Second, 20% of our work is for social projects where we charge smaller social enterprises at or below cost charges. Thus, we cross-subsidize our social projects."</i> (M1)</p> <p><i>"We follow variable costing for our clients. For small and medium social enterprises we charge minimum rate for our services, as low as 30% of cost or even free of cost. However, for large social enterprises, NGOs we charged commercial rate. We cross-subsidize smaller organisations in line with our social mission of promoting FOSS applications in India."</i> (M2)</p> |

Source: Fieldwork, 2009

Mahiti then developed a resourcing strategy of charging market rates for the majority of its work to generate surpluses to fund its social objectives as explained in the quote from M1 in Table 6.7.

The finding that Mahiti was able to fund its social objectives with surpluses implies that though the organisation was structured as a for-profit venture, its social mission was central to its operations. In other words, profits were used as a means of achieving a sustainable solution to the problem of accessibility of IT services for the social sector. In a recent paper, Santos (2010) argues that the "predominant focus on value creation rather than value appropriation is what distinguishes social entrepreneurship from commercial entrepreneurship" (Santos, 2010, p. 13). As discussed in Chapter 2, the basic premise of innovation research in commercial enterprises is that innovators undertake risky, time-consuming innovation activities with profit-motives (Schumpeter, 1934; Dosi, 1982). This then contrasts with the motives of social entrepreneurs who as innovators seek to address unmet social needs. In particular, social entrepreneurs seek

“sustainable solutions to the problems they address in contrast to seeking sustainable advantage for their organisations” (Santos, 2010, p. 32).

### Scaling period: Formation of a new venture (2007-2009)

In Mahiti, the organisation achieved rapid growth in 2007 using a combination of two approaches: organic growth through internally generated funds, and inorganic growth achieved through collaborations with other organisations. This finding supports claims of Austin et al. (2006) that SEVs essentially have “three strategies to disseminate social innovations: direct scaling (or organic growth), partnerships with other organisations (or inorganic growth) and some combination of both these approaches” (Austin et al., 2006; p. 7). Evidence from the case study on the deployment of these scaling strategies in Mahiti is summarised in Table 6.8.

**Table 6.8 Scaling of Mahiti’s social innovation**

| Scaling strategies   | Evidence from case study  |
|--|---|
| Development of in-house expertise in open-source software development (organic growth) | <p><i>“We are constantly searching for new technology. We regularly read blogs, internet networking sites that cater to new technology professionals. Through social networking websites like Facebook and Twitter we are able to gain access to other professionals looking at cutting edge new IT Technology” (M1)</i></p> <p><i>“We train employees for nearly two months through on-the-job training. We try to also orient them towards concepts of privacy and piracy” (M1)</i></p>                                       |
| Developing student communities<br>(combination of organic & inorganic approach)        | <p><i>“We have built a community of engineering students based in Bangalore. We have a dedicated person who acts as a coordinator and provides time, energy and costs for student communities developing source codes. In this manner, we hope to reduce our software development costs” (M1)</i></p>   |
| Merger (inorganic growth)  | <p><i>“In 2007, Celerity an IT company merged with Mahiti. This merger had many benefits. It allowed a social enterprise like ours to gain access to a wide network of clients, increased our skills set and the most important thing is that it increased our management bandwidth” (M2)</i></p> <p><i>“While working with Mahiti, I realised that there was some form of synergy between our enterprises. We were able to complement each other so after six years of association, in 2007 we decided to merge.” (M1)</i></p> |
| Collaborations with other organisations (inorganic growth)                             | <p><i>“MySME news is a collaboration project between Internews Europe, a media NGO, Mahiti – the technical partner, and Plural India, a social enterprise. This project is partially funded by the EC and we provide customised business information services to micro entrepreneurs in Kolkata” (M7)</i></p>   |

Source: Fieldwork, 2009

As illustrated in Table 6.8, Mahiti has adopted a number of strategies on scaling the social innovation. First, Mahiti has developed its in-house expertise in Free/Open source software development. This has been achieved through a number of ways such as the provision of extensive training to organisational members on recruitment. Further, knowledge sharing amongst organisational members is identified as a core element of Mahiti's organisational culture as detailed in section 6.2.5.4. Finally, the core team constantly updates themselves with the latest developments in software technology by attending seminars and interacting with other IT professionals through social networking websites. In essence, all these activities can be categorised as organic growth strategies where in-house expertise for open-source software development is being enhanced through a number of organisational activities.

The second growth strategy adopted by Mahiti was the decision to merge with Celerity, a commercial IT firm, in 2007. Researchers posit that mergers and acquisitions are a low-cost growth strategy for social enterprises (Kohm & La Piana, 2003) as it enables them to acquire scarce resources (Tracey & Jarvis, 2007). The third strategy involved undertaking a number of collaborative projects with other organisations. These two forms of activities constitute inorganic growth (Chowdhry & Santos, 2010). Collaborations enable partnering social enterprises to gain scarce resources and complement each other's capabilities (Seelos & Mair, 2005).

An example of a collaborative project undertaken by Mahiti is the MySME news project whose other partners are Internews Europe and Plural India. This project is partially funded by the European Commission and its status is reported by Anna, the Internews coordinator, in this quote:

*"Our ideas are still evolving. We are working out how to ensure financial sustainability. At present, we are the owners of the concept but we are open to partnerships, to replicate the idea in other regions in India and the world. We are in the process of learning from our successes and failures. We are looking at how to apply various technologies. In August 2009 our subscription was 25,000 today our newsletter has 1,000,000 subscribers bi-monthly reaching out to about half a million micro-entrepreneurs. The newsletter has evolved from an initial glossy to a tabloid."* (M7)

As the above quote suggests, the MySME News Project has enabled Mahiti to participate in a European Commission-funded social innovation project. Once, a business model is worked out for this project, the idea has the potential to be replicated in India and overseas. Though, the sustainability of this project is yet to be achieved, the collaboration enabled Mahiti to gain EC funding for development of MySME news services.

The growth strategy recently adopted by Mahiti of developing student communities for software code generation, mentioned in Table 6.8, can be seen as a combination approach to achieving growth as a dedicated person and resources are provided by Mahiti while there is an informal collaboration with the student community. This can be seen as a form of alliance for the purpose of knowledge sharing and replication (Dees et al., 2004). In a recent paper, West & Lakhani (2008) emphasise the role of communities in creating, shaping and disseminating innovations. The role of communities in the development of social innovations is an area that could be explored in further research and Mahiti's experiment with student communities would be an ideal case study to investigate the phenomenon of open-source innovation within the context of social entrepreneurship.

### **6.3.2 Capital combinations: Mahiti**

In this subsection, the capital combinations in each phase of the social innovation process in Mahiti are considered.

#### **Financial capital: resource constraint in Mahiti's social innovation**

Previous research in commercial entrepreneurship indicates that financial capital is crucial for innovation (Schumpeter, 1934). In the context of social entrepreneurship, scholars posit that social entrepreneurs lack access to financial capital (e.g., Austin et al., 2006). In a recent empirical study conducted on new social ventures in Israel, Sharir & Lerner (2006) found that the majority lacked access to seed capital in the initiation stage. Findings from Mahiti also suggest that social innovations develop under financial constraints.

In the initiation period, financial capital was not used to develop a new idea as the idea was incubated in Samuha, an NGO where the co-founders of Mahiti worked as IT professionals. In the development period, the start-up capital was provided by the founders and no form of external finance was taken in setting up the enterprise as reported by Shakhar, the co-founder in the first quote in Table 6.9.

This use of resources at hand by entrepreneurs pursuing an opportunity to innovate is referred to as the effectuation process by Sarvasthy (2001). Corner & Ho (2010) explain that effectuating social entrepreneurs "try to shape and create a solution to social need based on resources at hand" (p. 638). This resourcefulness of the co-founders of Mahiti can also be explained through the concept of bricolage as described by Weick (1993). However, both the effectuation and bricolage



processes fail to capture the possibility that for-profit SEVs like Mahiti may develop a number of innovative practices that minimise the need for finance. Evidence from Mahiti indicates that several innovative practices in financial management and fundraising were used to support the venture during the development period. For instance, in 2002, Sunny, the co-founder of Mahiti received a three-year fellowship from Ashoka, the world's largest network of social entrepreneurs. Shekhar (M3) explains the significance of this fellowship in a quote in Table 6.9.

Besides, search costs for potential clients or marketing costs in the development period were negligible as the Ashoka fellowship provided access to the worldwide network of social entrepreneurs who were Ashoka fellows. Similarly, an IT event conducted in 2005 by Mahiti provided a wide network of potential clients, as Shekhar explains in the final quote in Table 6.9.

Finally, the merger with Celerity in 2007 also provided access to more clients. Besides minimising marketing costs, the management of Mahiti maintains stringent financial control to judge its financial performance. As Shekhar explains in the second quote in Table 6.9.

In the scaling period of the social innovation too we find little use of financial capital to fund growth. Instead, the organisation has come up with innovative means of accessing resources through collaborations as in MySME news project which was funded by the European Commission and using student communities to generate software code. In summary, evidence from the case data suggests low levels of finance in capital combinations introduced in social innovation at Mahiti.

There is some indication that the financial constraints evidenced in the Mahiti case may be context-specific, specifically for technology ventures. For instance, studies conducted on new technology-based service firms have found that such ventures were unable to raise external finance due to the intangible nature of their assets (software), unproven markets and highly complex products and technologies (Dahlstrand & Cetindamar, 2000). The findings from Mahiti are, however, in contrast to findings of an empirical study conducted in the UK that "social entrepreneurs rarely invest or risk personal finance in their venture and neither do they seek profit maximisation or personal gain" (Shaw & Carter, 2007, p. 431). It is possible that because Mahiti is structured as a for-profit SEV its need for external finance was minimised as a way of enabling profit maximisation. However, this difference between the findings of this study and the UK study warrants further comparative research to determine how finance impacts the success or emergence of social innovations.

### **Human capital: enabler in Mahiti's social innovation process**

Findings from the Mahiti case suggest that for-profit SEVs, especially technology-based firms, have high levels of human capital throughout the social innovation process. First, in the initiation period, the co-founders had high levels of generic human capital as they had engineering degrees and their work experience in the social sector ensured that they gained industry-specific human capital. As Shekhar explains in the third quote in Table 6.9.

Similarly, the other co-founders of Mahiti had significant human capital as indicated in this quote:

*"Sunny has been a social activist since his Engineering days. We worked as colleagues in Samuha's IT department. Murray is a senior development worker who had worked earlier as a Director in Oxfam India." (M2)*

These quotes imply that the co-founders of Mahiti had significant levels of human capital which enabled them to recognise accessibility issues during the initiation period of the social innovation. In the development period, besides the human capital of the co-founders, other members joining the core team of Mahiti were IT professionals with considerable experience. For instance, the Technical Director (M1) explains his background in the fourth quote in Table 6.9.

Similarly, the Chief Design Officer describes his background in this quote:

*"I graduated in Civil Engineering. In 2000, I started working for Kirloskar Multimedia where I received training in IT. I learnt basic software programming and designing during the three months of training in Kirloskar. I also received on-the-job training through interaction with clients in the field." (M2)*

During the development period, the accumulated human capital of the core team enabled Mahiti to gain access to a wide network of clients. For instance, the three-year Ashoka fellowship received by one of the co-founders, Sunny, enabled Mahiti to gain access to the global network of social entrepreneurs who were all Ashoka fellows. Further, during this period, Mahiti developed in-house expertise in open-source software development (or organisational human capital) that enabled the firm to charge premium rates for its services to larger organisations. Finally, in the scaling period, Mahiti spends considerable time and efforts on developing its human capital as indicated in this quote from an interview with its Technical Director:

*"We train employees for nearly two months through on-the-job training. We try to also orient them towards concepts of privacy and piracy. Because we take local people or people who can speak regional languages who go and train our clients we have received good client feedback as our staff can train clients in their regional language itself" (M1)*

The Chief Design officer adds that:

*“We provide training, especially leadership skills to staff. We try to encourage them to take responsibility for their actions. We try to conduct transfer of soft skills to our staff” (M2)*

To summarise, in Mahiti, human capital of the co-founders and other organisational members can be identified as a major resource leveraged during the initiation, development and scaling of the social innovation.

### **Social capital: enabler of the social innovation process**

Social capital is known to facilitate innovation (Tsai & Ghoshal, 1998). Researches argue that social entrepreneurs extensively leverage their social capital to access scarce resources (Mair & Marti, 2006). For instance, Di Domenico et al. (2010) point out those social entrepreneurs in resource-constrained environments leverage their social networks for innovation. In a recent empirical study on new Israeli social ventures, Sharir & Lerner (2006) found that the social entrepreneur's social network contributed to the venture's success. Thus, scholars argue that social capital is an enabler of social innovation. Evidence from Mahiti suggests that social capital was extensively leveraged by the venture's founders and management team during the social innovation process.

In Mahiti, several forms of social capital were innovatively combined in all the three phases of the social innovation. In the initiation period, the idea for a new venture was developed by three professionals – two of them were colleagues in an NGO while the third was their client heading an NGO. Social capital theorists argue that frequent interactions amongst actors encourages the development of close relations (Granovetter, 1985) and a common vision encourages cooperative behaviour (Tsai & Ghoshal, 1998). In Mahiti's case, the close relations between the founders established through years of interaction would have encouraged them to take a collective action to pursue an opportunity, that is, to launch a new venture.

**Table 6.9 Forms of capital in Mahiti's social innovation process**

| Forms of capital  | Evidence from case study   |
|---|--|
| <p><b>Financial capital – resource constraint</b></p> <p>SE is characterised by a lack of access to financial resources” (Austin <i>et al.</i>, 2006, p. 7)</p> <p>“The majority of social ventures did not have the seed money needed for the initiation stage” (Sharir &amp; Lerner, 2007 p. 9)</p> | <p><i>“The financial capital invested in our company is entirely our own. The profits generated from our services are used for growth and expansion. We do not approach venture capitalists, angle investors or social investors because they may not invest on our terms but may impose their vision on us. This we believe may stifle our growth.” (M2)</i></p> <p><i>“On a monthly basis, we reflect on our performance, analyse what went wrong and plan ahead for the future.” (M3)</i></p> |
| <p><b>Human capital – resource in the social innovation</b></p> <p>“Unlike a commercial entrepreneur, social entrepreneurs are rarely able to pay market rates for key hires” (p. 11)</p>   | <p><i>“After my Engineering degree, I was looking for a job. I took up a job in an NGO called “Samuha”. In Samuha, I was part of the team that set up the IT system and I gained valuable experience. (M3)</i></p> <p><i>“I have done B.Sc. (Bachelor in Science) in Computer Science. I ran my own company Celerity, after working with Mahiti for six years we decided to merge as we felt our skills complemented each other”. (M1)</i></p>   |
| <p><b>Social capital – enabler</b></p> <p>“the social entrepreneur’s social network contributes to the success of a social venture” (Sharir &amp; Lerner, 2007)</p>   | <p><i>“The Ashoka fellowship Sunny received was small but its main benefit was the access we had to a large global network of Ashoka fellows who were all social entrepreneurs” (M3)</i></p> <p><i>“In 2005 we conducted an IT event called ‘Asia Source’ and attracted people from 42 countries in Bangalore. This event provided us with a client’s network with potential for future partnership.” (M3)</i></p>   |

Source: Fieldwork, 2009

In the development and scaling period, cross-functional team formation enabled frequent interaction amongst organisational members. Research has shown that frequent interaction fosters cooperation (Tsai & Ghoshal, 1998). Further, the open structure of Mahiti with a nearly flat, non-hierarchical organisational structure enhanced trust (a form of social capital) which is also known to induce cooperation (Uzzi, 1996). A trusting relationship amongst organisational members fosters innovation as individuals are more willing to share knowledge in such an environment.

Trust can also develop because organisational members shared common values (Barber, 1983, p. 21) which erases the possibility of opportunistic behaviour (Ouchi, 1980). This allows goal congruence between an individual's values and the organisation's values (Sitkin & Roth, 1993). In the case of Mahiti, prior work experience of the founders in the social sector ensured goal congruence.

### **6.3.3 Value creation – economic and social value**

Previous research suggests that SEVs create both economic and social value (Zahra et al., 2009) and some suggest that social value creation is main driver of social entrepreneurship (Austin et al., 2006; Tracey & Jarvis, 2007). Economic value can be measured for service organisations such as Mahiti as the growth in the number of clients served. However, measuring social value is challenging (Dees & Anderson, 2003a, 2003b; Paton, 2003).

In terms of economic value, since its inception in 2002, over one thousand organisations have been served by Mahiti. This number indicates significant growth for a for-profit SEV founded with meagre amounts of start-up capital. In terms of social impact, we can argue that as Mahiti serves social sector organisations the direct and indirect beneficiaries of its open-source software-based ICT services are likely to be in thousands. By any measures, we can see that this SEV has achieved spectacular growth in a short time span of eight years thus representing a successful social innovation.

As mentioned earlier, the lack of standardised measures for social value and the subjectivity associated with what constitutes social remains one of the barriers to conducting research on social innovations. Pol & Vile (2009) argue that a desirable social innovation is an innovation that has a positive influence on the quality and/or quantity of life. As an illustration of the social value created by Mahiti's services, the personal account of Govind, a micro-entrepreneur from Kolkata is presented in Box 1 that follows. Govind regularly subscribes to the MySME newsletter which is provided by the collaborative project in which Mahiti is the technical partner.

### **BOX 1: Govind, a micro-entrepreneur's account of MySME News**

Govind, a young micro-entrepreneur runs a small apparel retail shop in Jodhpur Park, Kolkata. His shop is small, crammed with Indian apparel of all sorts displayed in glass shelves and his clientele typically belongs to the lower income groups in Indian society. He inherited the business in 1999 after his father passed away. He regrets that his responsibilities led him to drop out of a Bachelors degree in Commerce. Like any entrepreneur, he is constantly searching for ways to improve his business performance. He informs that in this regard he finds the My SME Newsletter quite helpful.

Govind feels that the business information provided in the My SME newsletter helps him to relate to concepts he had studied as a commerce student. He has picked up tips on how to improve his micro business in areas such as goods collection, Sales & Marketing and customer relationship management. The articles in the newsletter have also made him develop an appreciation for wider concepts that he regards are key to a successful business such as the importance of goodwill, transparency and ethics. He summarizes that reading the newsletter has enhanced his personal business knowledge while improving his business performance. Govind has persuaded a number of his associates to subscribe to the freely available newsletter. He knows that nearly 400 micro-entrepreneurs in the Jodhpur market where his shop is located regularly subscribe to the newsletter. These micro-entrepreneurs include vegetable vendors, fresh fish vendors, tailors, food retailers and stationery retailers.

Govind interacts frequently with the My SME news's circulation executive and has provided feedback on how the information service could be improved on several occasions. For instance, he has requested the circulation executive to report back that information on micro finance and subsidized loans would be useful. In another customer feedback report he asked for information of pricing as his target market is quite price sensitive. Govind informs that in the last six months the content of the newsletter has changed significantly in response to his and other customers' feedback.

Govind ends his account by stating that he is looking forward to participating in the pilot project in which the My SME News services is to be provided through mobile phone technology.

The micro entrepreneur's account provided in Box 1 suggests that he believes that the newsletter provides him with several benefits especially enhancing his personal knowledge (human capital) and improving his business's performance (or monetary impact). In this case, the social in the social innovation can be identified as access to information which as Nobel Laureate, Sen (1999) suggests is known to enhance an individual's quality of life. Further, when we consider the country context, that is, India, a developing country, we can see why delivering compatible and

meaningful content for targeted populations is important for social innovation (Bhatnagar, 2003; Heeks, 2002a and b) for the targeted population. In the case of MySME news, the newsletter provides customised business information for micro-entrepreneurs (targeted population) which reflects its social impact.

From Box1, we see that Govind, a micro-entrepreneur, a beneficiary of the MySME News service reports the appropriateness of the information service which he reports has improve his business. This finding supports claims made by Santos (2010) that the innovative solutions introduced by SEVs are based on a logic of empowerment of the target beneficiary (Santos, 2010).

## **6.4 Summary**

This chapter presents the within-case analysis of social innovation at Mahiti. The social innovation identified in Mahiti was the introduction of a novel business model based on a new business ideology open-source ideology. Then, the cultural, historical and organisational contexts are considered as previous research has highlighted the context-specificity of social innovations (Tapsell et al., 2010). Then, a detailed analysis and discussion is presented using the social innovation framework developed in Chapter 3. This analysis led to the following key findings:

- 1) The recognition of accessibility issues in ICT deployment for development initiatives represented a social entrepreneurial opportunity which three professionals working in the social sector exploited to launch a new venture;
- 2) In the initiation period, industry-specific human capital of the founders was developed through experience gained in the social sector. In the development period, this led to the foundation of a for-profit SEV and the adoption of the open-source ideology. During the scaling period, the venture scaled its operations using a number of organic and inorganic growth strategies;
- 3) The social innovation developed under resource constraints. Financial capital was lacking throughout the process. The human capital of the founders and organisational members (both generic and industry-specific human capital) was leveraged throughout the social innovation;
- 4) Social capital was identified as an enabler in this social innovation. It was extensively leveraged to overcome resource constraints.

In summary, this case suggests that social innovation in for-profit SEVs involves the introduction of new business models under resource constraints. The case findings are in line with previous research that suggests that social entrepreneurship is a means of introducing new business models that operate from a logic of empowerment of the target beneficiary (Santos, 2010)



## Chapter 7: Case Study 3 – Aavishkaar India

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### 7.1 Introduction

This chapter examines in detail the social innovation in the third case study organisation, Aavishkaar<sup>1</sup> India. The case was selected as it fits the case selection criterion of an innovative, social entrepreneurial venture described in Chapter 4. First, Aavishkaar is founded on a novel business model based on a new business concept: micro-venture capital which mimics a venture capital firm's model. However, it is funded by socially conscious investors and provides equity financing for socially relevant innovations. Second, the SEV has an explicitly stated social objective of supporting socially relevant micro and small enterprises. Thus, in several ways, the case exemplifies successful financial innovation within the context of social entrepreneurship.

This chapter presents the within-case analysis of the case study and follows the structure adopted in Chapters 5 and 6. In the first section, the social innovation is identified as the initiation, development and scaling of a new business model based on a new concept – micro-venture capital aimed at supporting social innovations. Then, the cultural context is explicated which describes how Aavishkaar introduced a new concept micro-venture capital in India. This is followed by a historical account of the social innovation and then the organisational context is detailed. This includes illustrating how the organisational structure and culture of Aavishkaar mimics that of a venture capitalist firm but with social objectives. Finally, the case is analysed using the social innovation framework developed in Chapter 3. Quotes from interviews (A1-A7) with organisational informants are included in the chapter.

### 7.2 Case background

In this section, the organisational objectives in the third case are set out and the social innovation is identified. The historical, cultural and organisational contexts of the case are presented as per the interpretive paradigm adopted in this study. Interviewee details are given in Table 7.1

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<sup>1</sup> In Hindi and other Indian languages *Aavishkaar* means innovation

**Table 7.1 Overview of interviewees in Aavishkaar**

| Interviewee   | Role                  | Gender | Age   | Tenure     | Class        | Education     | No of times interviewed |
|---------------|-----------------------|--------|-------|------------|--------------|---------------|-------------------------|
| Prashant (A1) | Investment manager    | male   | 30-39 | since 2002 | middle class | post-graduate | 2                       |
| Vijay (A2)    | CEO/founder           | male   | 40-49 | since 1999 | middle class | post-graduate | 2                       |
| Prakash (A3)  | Investment manager    | male   | 30-39 | since 2005 | middle class | post-graduate | 1                       |
| Sushmita (A4) | Investment manager    | female | 30-39 | since 2004 | middle class | post-graduate | 1                       |
| Ushnish (A5)  | Co-founder, SKEPL     | male   | 40-49 | since 2003 | middle class | post-graduate | 1                       |
| Sunita (A6)   | Entrepreneur          | female | 40-49 | since 2006 | middle class | post-graduate | 1                       |
| Sajit (A7)    | Entrepreneur (client) | male   | 40-49 | since 2010 | middle class | post-graduate | 1                       |

### 7.2.1 Organisational objectives

Aavishkaar is a for-profit SEV located in Mumbai, India. Its primary mission as outlined in this quote from an interview with its founder is:

*“Our mission is to encourage the creation and spawning of socially relevant entrepreneurial solutions addressing local needs to help India achieve holistic sustainable economic development”. (A1)*

In order to achieve these aims, the organisational website (Aavishkaar, 2011) details its main objectives as:

- 1) To support socially relevant, commercially viable and environmental friendly micro and small enterprises by providing them with early stage equity finance and management support;
- 2) Achieve commercial returns for its global investors such that the chain of innovation-financing-commercialisation and growth continues to be strengthened;
- 3) To achieve both these goals by leveraging its India network to maximise its impact, in terms of growth, employment, productivity and return on investments.

The above mentioned objectives can be seen as a social mission which informs the investment decisions of the venture fund. The centrality of the social mission in determining the organisation's operations is reflected in this quote from an interview with its founder, Vijay:

*"We see challenges as opportunity. We draw our own conclusions whether the proposed idea would be able to solve a social problem." (A1)*

The above contributions reflect the social aspects of the innovation. The centrality of the social mission in determining the operations, strategy and structure of a social entrepreneurial venture is emphasised in social entrepreneurship literature (Dees, 1998; Austin et al., 2006). Thus, Aavishkaar exemplifies a for-profit SEV with a distinct social mission.

### **7.2.2 Identifying the social innovation**

As detailed in Chapters 5 and 6, within the context of social entrepreneurship, the introduction of new business models which provide sustainable solutions to social problems can be regarded as a social innovation (Phills et al., 2008; Seelos & Mair, 2005). In the case of Aavishkaar, the setting up of a new SEV based on a new business concept – micro-venture capital – represents a social innovation. By providing equity financing for high growth, rural ventures this for-profit SEV provides a sustainable solution to the unmet financing needs of rural ventures. Further, Aavishkaar provides a niche segment of the equity financing market, that is, a form of medium sized investment which is in between the microfinance sector (with investments averaging \$5000) and venture capital sector (average investment size \$1 million). Thus, the development of the micro venture concept can be seen as an adaptation of the venture capital concept and therefore constitutes an innovation (Shaw et al., 2005). This conclusion is well supported by evidence from the case.

In the secondary data sources the author reviewed, that is, the organisational website, conference published case studies and websites of client organisations, the concept of micro-venture capital was emphasised. For instance, Ashoka's<sup>2</sup> website lists Vijay, the founder of Aavishkaar as an Ashoka fellow (Ashoka, 2011b). Nageswaran (2003) elaborates that the Aavishkaar India Micro Venture Capital Fund was launched to finance socially relevant, commercially viable and environmentally friendly enterprises lacking access to mainstream financial institutions. Table 7.2 summarises the evidence of micro-venture capital practices at Aavishkaar from interview quotes.

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1 Ashoka is the global association of the world's leading social entrepreneurs.

**Table 7.2 Practices at Aavishkaar to support socially relevant MSMEs**

| Practice   | Interview Quotes  |
|--|---|
| Identifying & investing in socially relevant rural innovations | <p><b>Renewable energy sector</b> <i>"Our first investment was in Servals Automation in 2002 which provides energy solutions for the poor. Its patented products include an energy efficient kerosene burner &amp; a micro-irrigation device."</i> (A1)</p> <p><b>Dairy industry in Rural India</b><br/> <i>"In 2003, we invested in SKEPL which develops products and IT-based systems for dairy cooperatives that enhance their efficiency and transparency so as to benefit rural farmers"</i> (A1)</p> <p><b>Handicrafts</b><br/> <i>"In 2007, we invested in Rangasutra crafts India which provides self-employment for artisans and farmers in remote areas of India"</i> (A3)</p> <p><b>Affordable Healthcare</b><br/> <i>"We have recently invested in Swas Healthcare which provides affordable healthcare to rural and semi urban populations in South India and North India respectively"</i> (A4)</p> <p><b>Micro-finance institutions</b><br/> <i>"We have financed a number of micro-financial enterprises: Share Microfin, Equitas Micro Finance, Suryoday Micro Finance, Grameen Kota"</i> (A2)</p> |
| Management support to entrepreneurs of investee companies      | <p><i>"Besides capital, Aavishkaar provided us with management support which was very useful as I was a social worker and had no idea about financial aspects of a business. They helped me develop a business plan. They raised several questions in board meetings which helped me to think carefully about my company"</i> (A6)</p> <p><i>"Aavishkaar helped us develop a business plan, MIS systems and a marketing strategy. Since they came on our board, our growth has really picked up. We now have a presence in several states in India"</i> (A5)</p> <p><i>"Besides providing us with capital, Aavishkaar has helped us to develop an elaborate business plan, MIS systems and a marketing strategy. This was important since we were healthcare professionals with little management experience"</i> (A7)</p>  |

Source: Fieldwork, 2009

In the case of Aavishkaar, its founder recognised that the lack of access to equity financing for rural innovators represented an unmet social need. When asked to describe how he came up with the idea of Aavishkaar (see appendix G, Question 1), Vijay recalled:

*"While working for GIAN<sup>3</sup>, I interacted with several entrepreneurs in rural Gujarat. This made me realise that most rural enterprises with innovative ideas and potential for rapid growth lacked access to risk capital."* (A1)

However, as Pol & Ville (2009) point out the term 'social' is ambiguous and context specific. Evidence from the case study suggests that Aavishkaar has supported socially relevant innovations in high growth sectors such as renewable energy, affordable healthcare, handicrafts production, multilingual software and renewable energy. For instance, Aavishkaar invested in Rangasutra, a cooperative that provides self-employment opportunities to thousands of rural artisans in remote villages of India.

Aavishkaar has also invested in is SKEPL which provides automated dairy systems to rural dairy cooperatives in India. A review of investments of Aavishkaar suggests that though the investee companies are from diverse sectors, their target beneficiaries are the rural or semi-urban populations of India. Aavishkaar has also received global recognition as a catalyst for social change. For instance, Aavishkaar received the World Business Award in 2006 sponsored by UNDP and Prince of Wales Foundation. This was in recognition of being one of the best for-profit business models helping to achieve the Millennium Development Goals set by the United Nations to alleviate poverty. At the time of collecting data in 2009, Aavishkaar had raised over \$35 million through its micro-venture capital fund and had made investments in 22 companies of which 17 were rural ventures.

As Venture Capitalists, Aavishkaar provides management support in several ways to founders of its investee companies. First, for each investee company, an investment manager is provided to develop MIS systems, business plans and marketing strategies. This supportive role is reflected in this quote from an interview with Prashant:

*"I am involved in preparing and presenting business plans on behalf of our clients. We provide strategic inputs, which play a pivotal role in the enterprise. In our regular review meetings, members of our investment committee such as experienced VCs, bankers and entrepreneurs review the progress of the enterprise being invested in. They break down costs and work out pricing structure for the investment"* (A1)

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<sup>3</sup> GIAN-Gujarat Grassroots Innovations Augmentation Network, a charitable trust funded by the Government of Gujarat, a state in India.

The management support provided by Aavishkaar for social innovations mirrors that of venture capitalists supporting technological innovations (Ferrary & Granovetter, 2009). Its significance can be gauged from the excerpt from an interview with Sunita (A6), founder of Rangasutra, seen in Table 7.2. Similarly, Ushnish (A5), one of the co-founders of SKEPL, another of Aavishkaar's investee companies, reports how Aavishkaar has helped his company in his quote in Table 7.2.

From the above, we see that Aavishkaar has provided management support to its investee companies. In other words, there is frequent interaction between Aavishkaar's team and the entrepreneurs of the invested companies. This finding is in line with previous empirical research conducted by Sapienza et al. (1996) that found that the most effective venture capitalists were those who maintained frequent, open communication with the entrepreneurs in the invested companies. However, unlike venture capitalists who are driven by profit motives to invest in high growth technology ventures, social venture capitalists like Aavishkaar invest exclusively in socially relevant innovations. Silby's (1997) case study of a social venture capital fund has earlier illustrated how the fund invested in enterprises that were likely to make a significant social impact. In similar vein, Aavishkaar focuses exclusively in supporting socially relevant innovations and is therefore a social venture capital firm.

In summary, this section has shown that Aavishkaar's new business concept – micro-venture capital – represents a social innovation. By focusing on investments in socially relevant innovations, this for-profit SEV has created a niche for itself. In the next subsection, the cultural context in which this social innovation has emerged is considered.

### **7.2.3 Cultural context: micro-venture capital in India**

Venture capital's role in supporting technological innovations in developed countries like the USA, UK and the EU is widely reported in the academic and practitioner literature (Ferrary & Granovetter, 2009). An equivalent role is played in the social sector by social investors. In recent decades, the social investment sector has evolved worldwide with an aim to support social innovations.

In the UK, several large corporations such as the Cooperative group, Shell, and Barclays operate initiatives to develop social enterprises and social entrepreneurs. These initiatives are part of a growing trend towards greater corporate social responsibility by corporations (Meehan et al., 2006). However, not all social investors operate as venture capitalists since their investments do

not seek high growth ventures. Thus, the concept of social venture capitalists in the social sector is a relatively novel idea despite recent developments in the global social investment market.

In India, the venture capital industry has had a late start owing to restrictions imposed by the Indian government on foreign investment in India's financial sector (Nageswaran, 2003) Vijay recalls:

*"In 1999, when I founded Aavishkaar, the commercial venture capitalist industry in India was just beginning to emerge. In the rural sector, such a concept did not exist at all."* (A2)

He then elaborates why he found it difficult to raise investment for a venture capital fund in 1999 in this quote:

*"I had no money, no entrepreneurial experience and had never worked in the VC industry. I was also not well connected and being a young graduate, I faced major challenges. I struggled for five years without any salary. I continued to work hard. I guess my persistence made people start believing in me."* (A2)

The above quotes reflect the challenges start-up SEVs faced in India to raise finance in the late 1990s. Similar challenges are described in the accounts of three founders of for-profit SEVs in India who have received equity finance from Aavishkaar. For instance, in her account, Sunita describes her long struggle to raise capital for her firm:

*"I had worked as a social worker for the past twenty years and I realised that the NGOs were unable to empower their target communities. I felt that they were building a culture of dependency by providing donations or grants. I felt that there must be a new way of doing things so I decided to set up an enterprise in 2004. I then began looking for investors and like-minded people to invest in my enterprise. Banks I approached were not interested to fund my idea. Friends and family also showed low interest. So, I put in my own money."* (A6)

Ushnish describes how he and his colleagues put in their money as start-up capital:

*"The initial capital for the company was INR 5 Lakhs invested by the seven co-founders. We took no loans and reinvested our profits in the enterprise."* (A5)

Finally, Sajit, founder of SWAS healthcare, describes how the search for seed capital led them to approach Aavishkaar in this interview quote:

*"We started three years ago in 2006. Initially when we approached Aavishkaar for seed capital, our proposal was rejected as our operations were small. We found it difficult to raise finance so our growth was slow. Then, in 2009, Aavishkaar provided us with seed capital."* (A7)

The above quotes from the founders of three SEVs financed by Aavishkaar provide evidence that rural high growth ventures are disadvantaged with regards to access to (equity) finance. This

finding is in line with previous research conducted in the area of social entrepreneurship, as in Sharir and Lerner's (2006) study in Israel and Handy et al.'s (2003) study in India. In such a scenario, it is surprising that entrepreneurial ventures from India and overseas have not made significant investments in exploiting this huge market which given the large scale of social problems in India clearly represents the fortune at the bottom of the pyramid (Prahalad & Hart, 2002).

In 1999, when Aavishkaar was founded, the commercial venture capital industry in India was still in its infancy with average investments of over \$1 million. Similarly, the emerging micro-finance industry in India at that time had investment limits of around \$5000 per investment. Against this background, Aavishkaar tapped into a niche market which in investment terms was in between the targeted investments of the microfinance and the venture capital industries. Thus, Aavishkaar has provided a 'novel sustainable solution to an unmet social need' (lack of equity capital for high growth rural ventures).

In summary, the foundation of Aavishkaar's business model on a new concept – micro-venture capital – represents a finance-based social innovation which has provided a novel solution to financing needs of high growth rural ventures.

#### **7.2.4 Historical context: tracing the social innovation**

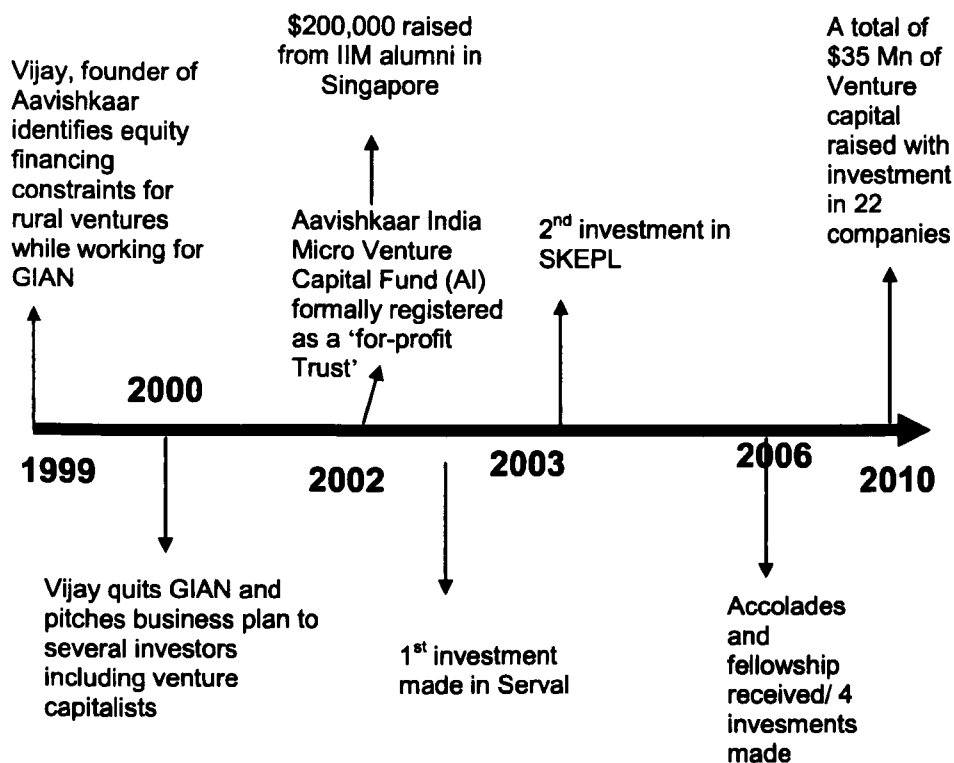
In this sub-section, the evolution of the social innovation is traced from its foundation year in 1999 through to 2009 the time when data was collected in the field (Figure 7.1 illustrates the timeline).

##### **7.2.4.1 Initiation period: a new business concept originates (1999-2002)**

In the case of Aavishkaar, the idea for setting up a venture was conceived by Vijay, a management graduate who can be described as a nascent entrepreneur. The initial idea evolved during Vijay's prior experience as CEO in a government initiative: Gujarat Grassroots Innovation Augmentation Network (GIAN) which funded traditional knowledge innovations in the Indian state of Gujarat.



**Figure 7.1 Key events – Aavishkaar (1999-2009)**



Source: from accounts of key informants

In 1999, GIAN made its first investment but Vijay noticed problems with its business model. For instance, growth of rural enterprises supported by GIAN was stifled as these enterprises needed additional capital to support their growth. These observations were reported by Vijay when asked about how he came up with the new idea:

*"While working for GIAN, I interacted with several entrepreneurs in rural Gujarat. The interaction made me realise that most rural enterprises with innovative ideas and potential for rapid growth lacked access to risk capital." (A2)*

Vijay realised that there was an entrepreneurial opportunity to provide equity finance to high growth rural enterprises similar to how Venture Capitalists fund high growth technological ventures. So, he quit GIAN and started a new venture as he explains:

*"I left GIAN and short listed eight high potential rural enterprises that required additional capital. I then began searching for investors to back my idea by setting up a venture capital fund exclusively for such ventures." (A2)*

However, in 1999, the commercial venture capitalist Industry in India was itself in its infancy with total VC investments in high-technology firms being around \$320 million (Nageswaran, 2003). Further, VC firms generally invest a minimum of \$1 million in a venture far above the financing needs of rural enterprises. The idea of forming a new micro-venture capital fund for rural enterprises seemed rather far-fetched at that time as Vijay's account suggests:

*"In the initial years we made little progress. It was an uphill task. It is right to say that Aavishkaar is born out of sweat and blood – a lot of hardship."* (A2)

The above quote suggests that Vijay's lack of prior entrepreneurial or VC experience meant that investors were reluctant to invest in the new fund. Moreover, at that time, the concept of social venture capital was non-existent as this quote from the same interview suggests:

*"I guess we were different from the very start, we were the first social venture fund not just in India but in the world. For comparison sake, the first social venture capital fund outside India was established in 2005."* (A2)

Despite the initial setbacks, Vijay persisted. Finally, he was able to convince a group of IIM<sup>4</sup> alumni (Vijay had worked as a Research fellow in IIM, Ahmedabad) living in Singapore and Aavishkaar was born. As Vijay reports:

*"In 2002, a group of IIM alumni living in Singapore agreed to invest \$200,000 in our fund and Aavishkaar finally took off."* (A2)

In 2002, three years after Vijay began his search for investors, Aavishkaar was formally launched with funds from overseas (offshore) investors. The fund's structure was based on that of a venture capital fund as Vijay explains in this quote:

*"We had a two-tier structure. Our offshore investment arm Aavishkaar International raised funds from overseas investors in Singapore and Aavishkaar India administered and managed these funds onshore in India."* (A2)

Thus, in the initiation period, the micro-venture capital concept first conceived by Vijay was finally institutionalised by raising overseas investment.

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IIM<sup>4</sup> Ahmedabad-Indian Institute of Management is a leading business school in India.

#### **7.2.4.2 Development period: a new fund is launched (2002-2005)**

In 2002, Aavishkaar India Micro Venture Capital Fund (AIMVCF) was formally registered with SEBI<sup>5</sup> as a for-profit trust. Further, investment funds of US\$ 200,000 were transferred from Aavishkaar International, the offshore Singapore arm of Aavishkaar to India for investments in socially relevant rural innovations. However, these investment funds were far below the initial estimated requirement of \$2 million for a venture fund. This meant that during the development period, the Aavishkaar India team faced major constraints in terms of human resources and under-funded investments.

These challenges are elaborated in this account from an interview with Vijay:

*"I feel that our slow growth for the first 5 years was a blessing in disguise as it was our learning curve. We faced several barriers. I did not have any network as I am not from a business background. Further, there was no ecosystem in rural India that could support Aavishkaar. Another barrier was knowledge. We had to educate the social entrepreneur about the benefits of social venture capital. Many of them asked us why they would need equity financing as they only saw bank loans as the means of financing enterprises. So, we had to educate our clients, the social entrepreneurs and develop our relationships with them."* (A2)

The above quote suggests the financial constraints of a small sized investment fund meant that the Aavishkaar team faced significant challenges in finding potential investments and managing them in a cost effective manner.

To overcome these constraints, the team developed a more disciplined and cautious approach to identifying and monitoring investments (to reduce search costs). After careful scrutiny of potential enterprises, the first investment by Aavishkaar was made in November, 2002 in Servals Automation as Vijay recalls:

*"After several meetings with the founder of Servals, we decided to invest \$ 26,444 in them as they had two patented products that could provide energy solutions for the poor: a kerosene burner and a micro-irrigation device"* (A2)

This investment in Servals met the investment criteria of the fund, that is, of supporting socially relevant innovations. However, at that time, Servals had not achieved its break-even sales point. To ensure success of investment, the Aavishkaar team provided significant management support to Serval's founder as is evident in this quote:

*"In 2002, Servals had yet to achieve its break-even sales point. We helped them to develop their marketing and distribution channels. In 2003, their growth picked up. Then, we increased our stake to 49% while continuing to provide strategic advice. We also introduced them to our network which led them to collaborate with 30 NGOs for sales and marketing of their products through rural women looking for self-employment."* (A2)

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<sup>5</sup>SEBI-Securities exchange board of India is the capital markets regulator.

The above quote suggests, by developing and leveraging social networks with other NGOs, Aavishkaar helped Servals to develop a low cost marketing strategy. This helped Servals to achieve significant growth leading Aavishkaar to enhance its stake in the enterprise. Following this success, the practice of leveraging social networks with NGOs to ensure success of an investee company was formalised by Aavishkaar. This was done by signing a number of MOUs with other NGOs working in the social sector.

In 2003, Aavishkaar made its second investment of \$44,000 and took a 26% stake in SKEPL, a for-profit SEV that provided automated dairy systems to rural dairy cooperatives. At that time, SKEPL was debt ridden and its management was overstretched. The Aavishkaar team helped the enterprise to develop its marketing strategy and provided strategic inputs to the management which helped enhance SKEPL's profitability. For the next two years, no further investments were made as the Aavishkaar team focused on monitoring the performance of its two investments. This focus helped the team to develop a number of systems and practices for monitoring investments such as due diligence, mentoring support to founder entrepreneurs, marketing strategies and so on. This slow process of organisational learning is reflected in this quote from an interview with Vijay:

*"Initially, our progress was very slow. We developed a rigorous selection process. We took a long time to make relationships with potential enterprises for investment. We also considered the motivation of the entrepreneur beyond making money. We carefully scrutinized what they wanted to do with our funds. We took a long time to analyse the social impact of a given project. We took 8 to 9 months to evaluate a project for investment. Until we see, hear and feel the project we don't invest in it." (A2)*

The above contribution suggests a disciplined and cautious approach to investments necessary considering that Aavishkaar was developing a new concept. In 2004, Aavishkaar made its third investment in Craftsbridge India, a handicraft production firm based in Pune. Then, in 2005, two investments were made in a single year. The first investment was in Naveen Gram Agrotechnologies a marketing firm specialising in rural technology products. The second investment was made in Net Systems Informatics that develops technology solutions to empower people with disabilities.

From the preceding discussion, we can see that growth of Aavishkaar during the development period was quite slow. In essence, this period can be seen as one in which organisational learning was accumulated leading to the development of extensive organisational systems for identifying and monitoring investments. Further, the small size of the investment funds (only \$200,000) meant that the Aavishkaar team had to develop close relationships with the entrepreneurs in their

invested enterprises. This frequent interaction led to the accumulation of industry specific human capital for equity financing in the social sector. This learning process is reflected in this quote from an interview with Prashant, an investment manager who joined the Aavishkaar team way back in 2005:

*"I was recruited on campus while completing my Chartered Financial Analyst degree. At that time, Aavishkaar was a small venture capital fund and I realised that by working with them, I could learn a lot more as I would have to perform a range of functions. My human capital has been greatly enhanced in this job. I have learnt a lot about entrepreneurship through my interaction with entrepreneurs. I have also learnt a lot about investment searching and monitoring processes. I was the fourth person to join Aavishkaar along with the CEO and the Trustees. I attended quarterly review meetings which helped me to learn first-hand about managing risks in investments."* (A1)

In summary, during the development phase, Aavishkaar developed its investment strategy by enhancing its human capital (systems to monitor investments) as well as its social capital (through customer and NGO networks). This for-profit SEV adopted an overall strategy of developing a disciplined and cautious approach to investments with a total of four investments made in three years. Further, the strategic inputs provided by Aavishkaar's team to the entrepreneurs of the invested companies spurred growth in those companies and ensured a positive return for investors in the Aavishkaar fund.

#### **7.2.4.3 Scaling period: rapid growth of Aavishkaar (2006-2009)**

In Aavishkaar, the scaling phase began in 2006 when the organisation had received considerable recognition for its pioneering efforts. For instance, in 2006, Vijay was awarded a fellowship from Ashoka, the world's largest network of social entrepreneurs. Then in that same year, Aavishkaar received the World Business Award sponsored by UNDP<sup>5</sup>. These accolades provided Aavishkaar with wider recognition amongst socially conscious overseas investors thereby attracting more investment funds.

In 2006, three investments were made by Aavishkaar in a single year as reflected in this account by Prakash, another investment manager:

*"The first investment was made in Tide Technocrats which provides micro-hydel installations for rural electrification. This was followed by an investment in CK technologies, an IT firm working to eradicate the digital divide by creating multilingual software for regular computer applications. The third investment was made in Vortex Engineering, a company that manufactured low-cost ATMs for the rural market."* (A3)

Similarly, in 2007, three investments were made. The first two investments were made in handicrafts production firms providing self-employment to rural artisans in remote Indian villages. The firms were Rangasutra Crafts and Desert Artisans. The third investment was made in Bharatiya Samrudhhi Finance, a micro-financial institution. Aavishkaar continued to make investments in a number of companies like Vaatsalya Healthcare Solutions and several micro-finance institutions. At the time of collecting data in 2009, Aavishkaar had raised over \$35 million and had made investments in 22 companies of which 17 were rural ventures. Its network of investors and funders had expanded significantly and included organisations such as NABARD – India’s apex rural development Bank; CORDAID – a Dutch NGO; CEP Investment Trust Fund – A Canadian Social Venture Fund and Lesing Nominees Guernsey, UK.

During the scaling period, Aavishkaar India entered into several strategic partnerships with other financial institutions and venture capitalist firms. One such partnership is Aavishkaar Goodwell India Microfinance Development Company, a for-profit business development company that provides equity finance and support to entrepreneurial microfinance organisations in India. It is a partnership between Aavishkaar India Micro Venture Capital Fund and Goodwell investments, a Dutch social investment firm.

To summarise, the evolution of Aavishkaar’s business model is unique in several ways. First, the micro-venture fund was developed entirely with private investments without any governmental support or grants. Second, it successfully institutionalised elaborate investment processes and financial systems which ensured financial success of its investee companies. For instance, the Aavishkaar team persuaded the founders of investee companies to adopt detailed financial reporting methods. Initially, the founders disliked this approach as they found such reporting to be an arduous, time consuming process. Besides, the founder entrepreneurs of investee companies lacked financial management skills. However, greater transparency and accountability helped to build a trusting relationship between Aavishkaar and its investee companies. This in turn facilitated successful knowledge transfer of management skills from Aavishkaar’s investment team to the founder entrepreneurs resulting in economic success for both the parties.

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UNDP<sup>6</sup> – *The United Nations Development Programme and the Prince of Wales Foundation awarded Aavishkaar in recognition of one of the best for-profit business models helping to achieve the Millennium Development Goals set by the UN.*

### **7.2.5 Organisational context: mission, structure and culture**

In this section, the organisational context is detailed in order to identify its influence on the social innovation under investigation in this chapter.

#### **7.2.5.1 Target beneficiaries**

Aavishkaar has both direct and indirect beneficiaries. Direct beneficiaries include the entrepreneurs and employees of the investee companies. Currently, Aavishkaar has twenty two companies in its investment portfolio and even by conservative estimates this means that at least two hundred people are its direct beneficiaries. However, the indirect beneficiary base is likely to be in thousands. Based on interviews of two of its investee companies – SKEPL and Rangasutra – it is apparent that Aavishkaar's investments have had a positive social impact in terms of livelihood creation and employment opportunities. For instance, SKEPL one of its investee company provides automated milk solutions to rural farmers in India which has helped improve the profitability of dairy farmers. Ushnish, the co-founder of SKEPL reports his enterprise's customer base in this quote from an interview:

*"With the inputs we got from Aavishkaar, our sales have improved significantly. We now have over one thousand computerised systems installed in dairy cooperatives in villages across India. Each of these dairies has hundreds of members and so we reach out to a number of poor, rural farmers."* (A1)

From the above contribution, we can see that the equity capital and management support provided by Aavishkaar has empowered thousands of rural dairy farmers who are members of dairy cooperatives across India. Similarly, Rangasutra another investee company has created self-employment opportunities for artisans living in remote villages across India. Sunita reports in this quote the direct beneficiaries of her enterprise:

*"We are structured as a cooperative with a membership of over a thousand rural artisans who are also the owners"* (A6)

The above mentioned quotes from the founders of two investee companies of Aavishkaar suggest that the indirect beneficiaries could potentially be in thousands. The indirect beneficiaries in the case of SKEPL are rural dairy farmers and rural artisans in the case of Rangasutra. Based on the two interview accounts mentioned above, we can conclude that by supporting socially relevant innovations, Aavishkaar has contributed to empowerment of marginalised groups in rural India.

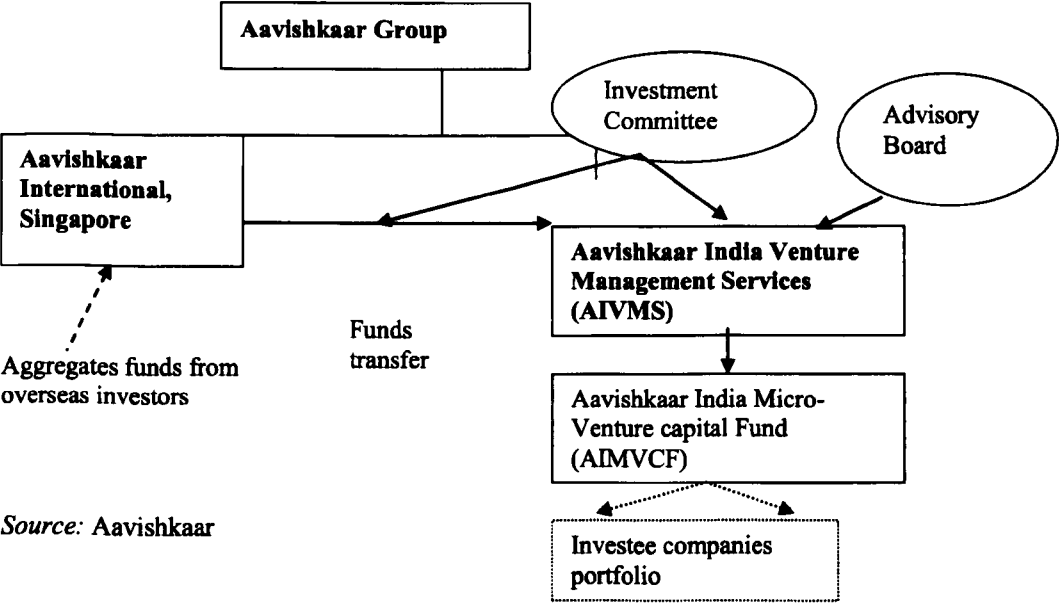
7.2.5.2 Organisation structure

The organisation structure of Aavishkaar is similar to that of a venture capital fund with multiple stakeholders. Prashant, an investment manager at Aavishkaar describes the structure in this quote:

*“Our structure and investment process has mimicked a traditional venture capital fund with an investment committee, advisory board and fund management company. Aavishkaar India is the fund management company that identifies manages and monitors investments onshore in India. Aavishkaar International in Singapore raises offshore funds from foreign investors. Our Investment committee and advisory board is made of venture capitalists, representatives of our investors, entrepreneurs and bankers who collectively decide on investment proposals we put together.” (A1)*

The above quote suggests an ‘open’ organisational structure of Aavishkaar (Figure 7.2) as it allows greater participation by its investors and advisors.

Figure 7.2 Aavishkaar’s organisational structure



Source: Aavishkaar

From Figure 7.2, we can see that the Aavishkaar Group has a two tier structure: 1) Aavishkaar International, Singapore and 2) Aavishkaar Venture Management Services in India.

Aavishkaar International, Singapore

This is the offshore arm of the Aavishkaar Group that is incorporated in Singapore. This company aggregates individual investments from social investors located overseas and then remits them to Aavishkaar India Micro Venture Capital Fund, a micro-capital venture fund located onshore in India. AIVMS is structured as: 1) an investment committee, 2) an advisory board and 3) a fund management company with its core investment team.



### **Aavishkaar India Venture Management Services (AIVMS)**

Aavishkaar Venture Management Services is the fund management company in the Aavishkaar Group. It provides equity capital ranging from \$20,000 to \$50,000 in socially relevant innovations developed by micro and small enterprises across India. AIVMS board members include Vijay (founder and CEO); Prakash (Chief Investment Officer) and Wim van der Beek (Managing Partner). The investment team that reports to this board consists of six investment managers who are all finance professionals. Prashant summarises the investment review process, which forms stage I of the investment process, in this quote:

*“The investment team carries out a review process looking at the three main objectives of social responsibility, environmental friendliness and commercial viability for each potential investment.” (A1)*

Thus, the investment team and board members of AVMS are involved in identifying investment opportunities, managing investment flows and monitoring investments. Following the review process, the investment team of AVMS submits its proposals to the Investment Committee for approval.

### **Investment committee**

The Investment Committee (IC) makes the final investment decisions on behalf of the micro-venture capital fund. Its role is described in this quote from an interview with Vijay:

*“The investment committee checks if each investment is in line with our mission and the risk profile of our investors. It is formed of experienced professionals such as venture capitalists, bankers and entrepreneurs” (A2)*

The above quote suggests that the committee members ensure compliance and this form of a participative style of investment decision making ensures greater accountability of fund managers. This is reflected in this quote from an interview with Vijay:

*“Our organisation structure is also flexible. We are open to being challenged. There is no one way of doing things in our organisation we are therefore very flexible.” (A1)*

He later elaborates the role of the investment committee in this quote:

*“They advise us in three stages of the investment process, that is, the pre-investment stage for sourcing and due diligence; then in negotiation of shareholder’s agreement and the post-investment process for performance review as well as exit options.” (A1)*

The Investment Committee is involved in the investment decision process when a potential company reaches Stage II of the evaluation process. During this stage, the IC members raise questions regarding basic criteria as well as specific concerns such as details on marketing strategies of the investment company being evaluated for investment. Then, in Stage III of the review process the responses to questions raised in Stage II are scrutinised to ensure additional due diligence. Finally, valuations of the proposed investments are conducted and investment terms charted out. In essence, the IC is an important element of Aavishkaar's business model as it acts as a governance mechanism to control investment risks, ensures a 'fit' with the social mission and provides advice on improving the profitability of the investee companies.

### **Advisory board**

The advisory board is an additional check point which advises on the investment decisions made through the investment committee. Sushmita, an investment manager explains:

*"We have an advisory board that consists of eminent venture capitalists, bankers and enterprise development specialists. They provide advice to entrepreneurs of our investment companies and our investment committee." (A4)*

This contribution indicates that the advisory board offers additional value by mentoring entrepreneurs of the investment companies based on their accumulated expertise and experience.

In summary, the organisational structure of Aavishkaar India can be seen as an open structure which allows for participation by investors and other stakeholders. This structure reflects a more participative style of investment management with enhanced disclosure and stakeholder accountability. The structure also acts like a governance mechanism ensuring transparency between the fund investors and their fund managers.

### **7.2.5.3 Investment and operational strategy**

Aavishkaar provides equity capital, management support and mentoring to the founder entrepreneurs of socially relevant MSMEs in India. In terms of financial instruments, it offers a range from common equity stock to quasi-equity, preferred convertibles, mezzanine loans and royalties. Vijay explains the typical investment needs of his clients in this quote:

*"In general, the equity capital needs of MSMEs fall in between micro-finance investment products of ticket size below \$1000 and established venture capital funds with average ticket size of over US\$1 million. We estimate that at the start-up stage, the capital requirements do not exceed \$250,000." (A2)*

From the above, we can see that Aavishkaar provides several options to MSMEs to meet their equity financing needs. The investment criteria developed by Aavishkaar to scan potential investments is outlined in Box 7.1.

**Box 7.1 Investment criteria: Aavishkaar**

- The company must be capable of growing in scale and efficiency;
- The company must be commercially viable, socially relevant and environmental friendly;
- The management must be entrepreneurial and mission driven;
- The company must have strong promoters, good background;
- There must be opportunities for creating social and commercial value by pooling

*Source: Aavishkaar*

From box 7.1 we can see that Aavishkaar has 5 main investment criteria to evaluate the social benefits of an innovation. For instance, it evaluates whether the company is commercially viable, socially relevant and environment friendly. Further, the management is evaluated for its entrepreneurial orientation and the centrality of their mission. Finally, both commercial and value creation opportunities are estimated. Though social value is assessed by the investment team on their field experience without any formal metrics, the financial viability is evaluated using traditional venture capital evaluation models and metrics.

Prashant elaborates the investment evaluation process in this account:

*"We follow a four-stage process. The screening phase involves a discussion of the business concept and its alignment with our investment criteria of rural applicability, social relevance and presence of an organised business model. In the second stage we assess the entrepreneur's competence and social mission. The third stage involves a detailed financial and market analysis. Finally, terms sheets are prepared, an audit and legal due diligence are conducted."* (A1)

Following an investment, the investment team provides management support and mentors the entrepreneurs of the investee companies. Each investee company is assigned an Investment Manager and a Junior Associate who form the due diligence team who monitor the financial performance. Monthly review meetings are held between the investment manager, associate and CEO on each company's progress. In addition, every quarter, the CEO and CFO of the investee companies are invited for a meeting with the fund review team to review their strategic plans. Prakash explains:

*"For start-ups, we discuss ways of managing costs, retaining human resources and developing systems and processes for operations such as marketing. A company at the scaling stage is advised on growth strategies to enhance profitability and develop strategic networks."* (A3)

In terms of exiting an investment, the options available to a social venture capital fund include initial public offerings, community or employee buy backs, acquisitions and sale to larger social venture funds. At the time of collecting data in 2009, Aavishkaar had not exited any investments but the founder, Vijay, did mention in his interview that:

*“Prior to making investments we consider possible exit options as it can affect our viability” (A2)*

In summary, the investment evaluation process involves assessing both the financial and social returns potential of an investment.

#### **7.2.5.4 Organisational culture**

This section examines the core elements of the organisation’s culture that support the micro-venture capital concept.

##### **In-house expertise in investment management (human capital)**

Aavishkaar’s main expertise lies in spotting opportunities, raising funds and monitoring investments. Its structure and governance mimics that of venture capital organisations who raise money from individuals and institutions for investment in high risk, high growth start-ups. Previous research indicates that human capital of venture capitalists plays a significant role in the success of venture capital firms in the commercial sector. For instance, a large scale empirical study conducted by Dimov & Shepherd, (2005) found that general human capital had a positive association with the proportion of portfolio companies that went public (initial public offering). To elaborate this, for venture capitalists, an event such as an initial public offering provides an exit option for an investment to cash in their equity stake.

Each member of the Aavishkaar team has a high level of human capital as all the organisational members interviewed were qualified management professionals. For instance, Vijay describes his background in this quote:

*“I have gained over sixteen years of experience in leading innovative interventions in the development sector. I hold two fellowships one from Ashoka and another from Xavier Labour Research Institute. I also have a post-graduate diploma in forestry management.” (A2)*

Similarly, Prakash describes his qualifications in this quote:

*“I did my MBA in finance and marketing and my Bachelor’s degree (B.Tech) in Textiles” (A3)*

From the above, we see that the recruited team members in Aavishkaar have fairly high levels of generic human capital as reflected in their qualifications. However, their expertise in investment screening and management is developed through field experience. For instance, Prashant explains his learning in this account:

*"When I joined Aavishkaar was a small fund and it has now grown to over £14 million in size. Having been part of its team, I have learnt a lot. I am involved in searching for information about companies and in financial modelling. I also prepare business plans and am involved in customer interaction as well as collecting clients' feedback. I attend capital structuring courses, conferences and seminars. Currently, I am part of the team developing an investment manual with detailed processes and systems we can follow for every investment."* (A1)

Prakash describes his personal learning in this account:

*"I am involved in spotting opportunities and promising entrepreneurs for this I search potential companies for investment in a number of ways including attending conferences. I evaluate whether the company fits in with our social mission. I am involved in pricing and valuation and in negotiation with the entrepreneurs on price. I am also involved in drawing up terms and conditions, making investment transfers and monitoring the investments. I often identify investment opportunities by attending seminars and conferences."* (A3)

The above contributions from two investment managers indicate that they have developed their industry-specific human capital. In term of industry-specific human capital, venture capitalists gain skills in providing a number of services for their portfolio companies such as raising additional funds provide strategic analysis and management recruiting (Gorman & Sahalman, 1989). Thus, the kind of knowledge being accumulated here is 'tacit knowledge' that is acquired through experience in the field.

### **Networks with investors & investee companies (social capital)**

Previous research indicates that VC firms have strong relationships with their investors (investor networks) and with the ventures they invest in (customer networks) (Sahlman, 1990). In the case of Aavishkaar, evidence for the existence of strong networks with investee companies exists in the interview accounts of both organisational informants and founder entrepreneurs. For instance, Vijay describes the development of relationships with the entrepreneurs in investee companies:

*"We had to educate the entrepreneur about the benefits of venture capital. Many of the entrepreneurs saw loans as the only financing option. At that time, the concept of Venture Capital was just emerging in India and we were a completely new segment – rural VC. The key difference between us and other funds is that we believe in relationship based investing and are not contract-based."* (A2)

Vijay later emphasises the importance of building relationships with the investee companies in this quote:

*"Educating clients takes time and investments are risky. Choices are not always clear and are not easy. In such a situation, what matters most is trust and relationships become important. One looks for honesty, continuity and ability." (A2)*

From the above, we can see that the provision of equity capital by venture capitalists to start-ups is a high risk investment fraught with uncertainties. In such a scenario, building and developing strong networks with founder social entrepreneurs of investee companies combined with mentoring support can enhance the probability of investment success. This networking and mentoring process is evident in this account by Sunita:

*"Aavishkaar provided us with capital in 2007. Since then, we regularly interact with them. Most importantly, the management inputs they provided were very useful as I was a social worker with little idea about financial aspects of running a business. They helped me develop a business plan and raised questions which made me think carefully. Aavishkaar team members sit on our board meetings. I have acquired a number of management skills from them such as developing MIS systems to evaluate the business and financial management skills. This has helped us achieve growth and contributed to the success of Rangasutra." (A6)*

Similarly, Sajit reports:

*"They provided us with equity in 2009. More importantly, they gave inputs to improve our business and provided access to a wide social network. A new business like ours faces several challenges. The Aavishkaar team interacts with us regularly. They evaluate our business model and attend our board meetings. We provide them with monthly data on our progress and attend quarterly review meetings." (A7)*

The above contributions indicate frequent interaction indicating the presence of strong networks with founders of investee companies which is in line with findings from previous research conducted on venture capitalists (e.g., Sahlman, 1990; Gorman & Sahlman, 1989).

### **Networks with investors**

Previous research indicates that venture capital organisations develop and maintain strong relationships with their investors who could be individuals or institutions (Sahlman, 1990; Gorman & Sahlman, 1989). Vijay explains how Aavishkaar was the result of collaboration with investors:

*"In 2001, several individuals (high net worth individuals) had raised funds and wanted to make a difference to India. They did not want to give grants. Some of them were involved in collaboration with us, so Aavishkaar was born as a collaborative effort between these overseas investors and us." (A2)*

Vijay then adds:

*"In 2002, we were able to raise \$200,000 from IIM Alumni living in Singapore. Now we have large global institutions investing with us. Some of our investors are Deutsche Bank; International Finance Corporation, Rockefeller Foundation; National Bank for Agriculture and Rural Development and Small Industries Development Bank of India." (A2)*

From the above, we can see that over the years, Aavishkaar has built strategic networks with its investors to raise funds for Aavishkaar India Micro-Venture Capital fund. Further, representatives

of investors are part of the investment committee which approves investments made from the fund as this quote from an interview with Prashant indicates:

*"In the final stage of the investment evaluation process, the proposal is put up for approval by our investment committee consisting of professional such as bankers, investors with 20 to 30 years investment experience. Sometimes we help in their decision-making by presenting our report and analysis on the project." (A1)*

He adds:

*"For every investment, a memo is prepared which contains reports from investment managers, Prakash our Chief Investment Officer and Vijay our Managing Director. This memo is then submitted to the investment committee who approve the investment. On receiving approval Aavishkaar team then transfers the funds to the enterprises." (A1)*

In summary, Aavishkaar has strategically built strong networks with its investors and investee companies. This finding is in line with assertions made in previous research that "social entrepreneurs often have to provide value more explicitly with a much more heterogeneous set of stakeholders with each group seeking or giving a distinct form of value from the relationship" (Austin et al., 2006, p. 14). Thus, SEVs like Aavishkaar are accountable to a large and diverse number of stakeholders which results in a greater complexity in managing these relationships.

### **7.3 Case analysis as per framework on social innovation**

In this section, the social innovation framework developed in Chapter 3 (Figure 3.1) is used as a template to analyse the social innovation process in Aavishkaar.

#### **7.3.1 Lack of access to equity for rural ventures: opportunity**

Opportunity recognition is central to commercial and social entrepreneurship. In the case of Aavishkaar, a management graduate working in a government initiative recognised that the lack

of access to equity finance stifled growth of high-growth rural ventures. This represented a social entrepreneurial opportunity to innovate by setting up a new, for-profit SEV.

**Table 7.3 Lack of access to finance for SEV start-ups in India**

| Issue  | Quotes from interviews   |
|--|--|
| Lack of financial institutions catering to the needs of rural ventures | <i>"While working for GIAN, I interacted with several entrepreneurs in rural Gujarat. I realised that for some promising rural enterprises which had come up with innovative ideas and had the potential for rapid growth, risk capital was scarce. I realised that such enterprises were likely to fail. At that time, there was no ecosystem in rural India that could support social enterprises in rural areas."</i> (A2)  |
| Lack of financing options for socially relevant social innovations     | <p><i>"I began looking for investors and like-minded people to invest in my business. Banks did not want to invest. Friends and family also showed little interest. So I put in my own money and launched Rangasutra."</i> (A6)</p> <p><i>"The initial capital for the company was Rs. 5 Lakhs invested by 7 people. We took no loans and we grew by investing our profits from sales and services of the dairy system."</i> (A5)</p> <p><i>"In the first round our financing, we borrowed from friends and family. In this round of financing Aavishkaar is our only financier."</i> (A7)</p> |

Source: Fieldwork 2009

From Table 7.3, we can see that financial constraints existed in India in the 90s for high-growth rural ventures. Vijay recognised that this represented a social entrepreneurial opportunity. He then conjectured a solution, that is, provision of equity finance and support to high-growth rural ventures with socially relevant innovations in a manner similar to the support that venture capitalists provide for technological innovations. Thus, the new idea of providing micro-venture capital finance was a modification of the venture capital concept.

### **Importance of founder's human capital**

The importance of founder's human capital is another aspect of the social entrepreneurial opportunity in the Aavishkaar case. Evidence presented in Table 7.4 suggests that Vijay possessed significant generic human capital (that is a management degree) that enabled him to get an executive position.



**Table 7.4 Founder’s human capital resource in Aavishkaar**

| Human capital elements  | Quotes  |
|---|---|
| <b>Generic Human Capital</b><br>educational attainment          | <i>“I hold a management degree and was guest faculty at the Indian Institute of Management, Lucknow on social venture funding” (A2)</i>   |
| <b>Industry-specific Human Capital</b><br>prior work experience | <i>“While working for GIAN, I interacted with several entrepreneurs in rural Gujarat. I realised that for some promising rural enterprises which had come up with innovative ideas and had the potential for rapid growth, risk capital was scarce. I realised that such enterprises were likely to fail without risk capital. I also realised the constraints I faced to deliver services due to GIAN’s organisation structure since it was a government initiative.” (A2)</i> |

Source: Fieldwork 2009

He then acquired industry-specific human capital while working as the CEO of GIAN, a government initiative. This experience enabled him to recognise and develop the social entrepreneurial opportunity.

Opportunity recognition in the Aavishkaar case was based on the founder’s frequent interaction with rural entrepreneurs. In other words, the founder’s human capital (both generic and industry specific) was a major resource in the development of the social innovation. Industry-specific human capital helped its founder to recognise a social need, that is, the lack of access to equity finance for rural entrepreneurs. This then represented a social entrepreneurial opportunity to launch a new venture that could provide micro-venture capital to socially relevant innovations introduced by micro and small enterprises.

**Collaborative Action**

Collaborative action is the third aspect of the pursuit of social entrepreneurial opportunity by the founder of Aavishkaar as evidenced in the case findings in Table 7.5.

Vijay’s realisation that rural entrepreneurs with innovative ideas were marginalised with regards to access to equity finance (a social problem) was based on his interaction with rural entrepreneurs. Then, on registering the new venture, Vijay was successful in raising finance

through his personal social networks. This collective orientation by social entrepreneurs is in line with findings from an empirical study conducted in the UK by Shaw & Carter (2007).

**Table 7.5 Evidence – collaborative action in Aavishkaar’s opportunity development**

| Collective action        | Quotes  |
|--------------------------|---|
| Initiation of a new idea | <i>“While working for GLAN, I interacted with several entrepreneurs in rural Gujarat. I realised that for some promising rural enterprises which had come up with innovative ideas and had the potential for rapid growth, risk capital was scarce” (A2)</i>  |
| Development of an idea   | <i>“Some of them were involved in collaboration with us, so Aavishkaar was born as a collaborative effort between these overseas investors and us” (A2)</i><br><br><i>“In 2002, we were able to raise \$200,000 from IIM Alumni living in Singapore” (A2)</i> |
| Scaling of the idea      | <i>“Some of our investors are Deutsche Bank; International Finance Corporation, Rockefeller Foundation; National Bank for Agriculture and Rural Development and Small Industries Development Bank of India” (A2)</i>  |

Source: Fieldwork 2009

As indicated in Table 7.5, Aavishkaar was founded in 2002 as a collaborative effort between the Aavishkaar founder and overseas investors reflecting a collaborative form of entrepreneurship. The founder had gained extensive experience (1999-2002) while working as CEO in GLAN.

### 7.3.2 Temporal periods of the social innovation process

We can identify three temporal periods in Aavishkaar’ social innovation process as: 1) initiation; 2) development and 3) scaling (detailed in section 7.2.4), which resonates with claims made in previous research (McFadzean et al., 2005; Shaw et al., 2005; Van de Ven et al., 2008).

#### Initiation period (1999-2002): a new idea originates

In the social entrepreneurship literature, scholars claim that in the initiation period of a new social venture (or a social innovation), the frequent interaction amongst multiple actors leads to the recognition of a social issue or problem (Haugh, 2007). In the case of Aavishkaar, its founder worked in a government of Gujarat initiative supporting rural innovations.

**Table 7.6 Initiation period activities**

| Activities   | Evidence from case study  |
|--|---|
| <b>Refinement of ideas</b><br>Recognition of equity finance access issues for rural entrepreneurs. | <i>"At that time, I worked in GLAN. GLAN was a Government of Gujarat initiative to encourage rural innovations. There, I interacted with several entrepreneurs in rural Gujarat and realised that for some promising rural enterprises with innovative ideas, risk capital was scarce. These enterprises were likely to fail without risk capital." (A2).</i> |
| Recognition of constraints of public sector format.  | <i>"I realised the constraints I faced to deliver services due to GLAN's organisation structure as it was a government initiative." (A2)</i>  |
| <b>Network building</b><br>Persuading and building networks with overseas investors                | <i>"I had no money, no entrepreneurial or any experience as a VC. I was also not well connected and as a young man I faced major challenges. I struggled for five years but was finally able to raise Rs. 5 Crores from IIM Alumni living in Singapore." (A2)</i>   |

Source: Fieldwork, 2009

From the above table, we see that during the initiation period, the initial idea was refined by the founder during his work experience in GLAN. This finding supports claims made by Mumford (2002) that in social innovations, "problem identification or definition seems to be experientially based" (p. 263). Further, researchers argue that following the recognition of a social problem or need, social entrepreneurs conjecture possible solutions for the same (e.g., Corner & Ho, 2010). In Aavishkaar's case, the conjectured solution to accessibility issues for rural entrepreneurs was developed by Vijay, along the lines of a venture capital model. This was a pioneering idea as the concept of social venture capital was yet to emerge worldwide. Such collaborative action is seen in Aavishkaar as reflected in this quote from the interview with the founder:

*"I guess we were different from the very start, we were the first social venture fund not just in India but in the world. For comparison sake, the first social venture capital fund outside India was established in 2005. In 2001, several individuals (high networth individuals) had raised funds and wanted to make a difference to India. They did not want to give grants. Some of them were involved in collaboration with us, so Aavishkaar was born as a collaborative effort between these overseas investors and us" (A2)*

As the concept of micro-venture capital was new and the founder lacked prior work experience in the venture capital industry, he lacked access to investor networks. This is apparent in the following interview quote:

*"There were several barriers. First, I did not have any networks as I am not from a business background. Second, there was no ecosystem in rural India that could support Aavishkaar. Another barrier was knowledge. We had to educate the entrepreneur about the benefits of venture capital. Many of the entrepreneurs asked us why they required venture capital as they only saw loans as a possibility of financing. At that time, the concept of venture capital in India was still emerging. Moreover, we were targeting a new segment, the rural VC that was an untapped market both in India and the world". (A2)*

The challenges mentioned above, meant that Vijay took considerable time to persuade investors and access their networks to support his cause. This is in line with claims made by Mumford that “social innovation clearly involves persuasion exercised through a variety of mechanisms” (Mumford, 2002, p. 264). The initiation period lasted for three years, during this time Vijay was able to build networks with overseas investors who were IIM alumni.

In the initiation period at Aavishkaar we can see considerable refinement of the idea that led to the creation of the business model of a new social entrepreneurial venture – Aavishkaar. This pattern of experimentation and refinement of new ideas is in line with findings from an empirical study that examined innovation episodes in social ventures in New Zealand (Corner & Ho, 2010) and in community-led social venture creation in Scotland (Haugh, 2007).

#### **Development period: Formation of a new venture (2002-2005)**

The key activities that mark the development period in Aavishkaar are depicted in Table 7.7 below.

**Table 7.7 Key activities during development period of Aavishkaar (2002-2005)**

| <b>Key activities</b>             | <b>Evidence from case study</b>  |
|-----------------------------------|--|
| Development of a social mission   | <p><i>“In 2002, we registered the Aavishkaar India micro-venture fund with SEBI. We also set up a Singapore Arm, to raise funds from socially conscious investors who were looking to make a difference in India” (A1)</i></p> <p><i>“Our mission was to support rural and semi-urban innovations in India” (A1)</i></p>   |
| Development of the business model | <p><i>“We have a wide network of investors and financial institutions. These include NABARD – India’s apex rural development Bank; CORDAID – a Dutch NGO; CEP Investment Trust Fund – A Canadian Social Venture Fund and Lesing Nominees Guernsey, UK.” (A1)</i></p> <p><i>“Our venture fund is entirely based on private money. There are no grants.” (A1)</i></p> <p><i>“We have funded a number of social innovations and supported rural entrepreneurs in several sectors. Some of the sectors we are involved in are Dairy Automation, Handicrafts production and Multi-lingual Software.” (A1)</i></p> |

Source: Fieldwork, 2009

The development period began in Aavishkaar with the formal registration of a new venture capital fund. A social mission was formulated as “supporting socially relevant social innovations in India” (Guclu et al., 2002). Social venture capitalist organisations now represent 6% of the venture capital market in developed countries (Hockerts, 2006). Unique attributes have been identified as critical investment criteria of social ventures such as “social mission, an entrepreneur’s passion for social change and community-based network” (Miller & Wesley 2010, p. 706). This pattern in investment decision making can be seen in Aavishkaar as reflected in this quote from an interview with Vijay:

*“We also consider the motivation of the entrepreneur beyond making money. We also carefully scrutinise what they want to do with the funds. We take a long time to analyse the social impact of a given project. We take 8 to 9 months to evaluate a project for investment. Until we see, hear and feel the project we don’t invest in it.” (A2)*

### **Business model**

As mentioned earlier, during the initiation period, the founder of Aavishkaar recognised the limitations of a government initiative in supporting rural innovations. In particular, high growth rural ventures with promising ideas required access to risk capital. To meet these needs, a new business model was developed by Vijay on the lines of a venture capital firm. First, a for-profit organisational format was adopted for the new social entrepreneurial venture with clearly stated social goals as reflected in this quote from an interview with Aavishkaar’s founder:

*“Our venture fund is unique. We are entirely based on private money without any form of grants. Our Singapore arm raises funds from overseas investors. We are registered with SEBI as a micro-venture capital fund. Our social mission is to support rural and semi-urban innovations in India.” (A2)*

In the case of Aavishkaar, its clearly articulated social mission implies that it can be identified as a social venture capitalist firm (Miller & Wesley, 2010). The second aspect of the unique business model of Aavishkaar is its focus on micro and medium sized enterprises which represents a niche segment of the equity financing market. For instance, conventional venture capital funds operating in India typically invest funds ranging from \$1 million to \$10 million in a single enterprise (Nageswaran, 2003). Similarly, micro-financial institutions invest \$5000/- in a single micro-enterprise. In contrast, Aavishkaar has invested funds ranging from \$25,000 to \$100,000 in a single enterprise. This investment strategy is reflected in this quote:

*“The equity needs of a high growth; rural venture rarely exceeds \$100,000. This is beyond the scope of micro-financial institutions and is too small for venture capitalists operating in the commercial sector in India.” (A2)*

Thus, we see that the Aavishkaar case supports earlier claims that social entrepreneurship involves the introduction of new business models (Santos, 2010; Seelos & Mair, 2005). Aavishkaar's model is based on a venture capital firm's model albeit with clear social objectives which warrants further research on innovative business models in the area of social entrepreneurship.

In terms of resourcing, Aavishkaar raised funds from socially conscious investors, the majority of whom are based overseas. The investor profile was described in this interview quote from Vijay:

*"Our investors are mostly based overseas. Our Singapore arm raises funds from these investors and remits them to India. We now have institutions investing with us like NABARD, India's apex rural bank, and a Dutch NGO called CORDAID."* (A2)

The above contribution suggests that the investor network of Aavishkaar is quite wide. Further, Aavishkaar's micro-capital venture fund has a clearly articulated social objective to "support socially relevant, commercially viable and environmental friendly micro and small enterprises by providing them with early stage equity finance and management support" (Aavishkaar, 2011). The centrality of the social mission to the operations of the organisation can be gauged from the following quote from an interview with Vijay:

*"Our social mission is to support rural and semi-urban innovations. We help rural entrepreneurs from any sector to scale up their new idea. We are involved in rural health and education, dairy automation, handicrafts production and low cost ATM to name a few."* (A2)

From the above, we can see that Aavishkaar as a for-profit venture with a social mission that is central to its operations. Further, investment monitoring of investee companies involves both financial and social performance parameters. This is indicated in this quote:

*"For start-ups, we discuss ways of managing costs, retaining human resources and developing systems and processes for operations such as marketing. A company at the scaling stage is advised on growth strategies to enhance profitability and develop strategic networks. We also estimate the social impact of an investment and are currently developing a social audit plan."* (A3)

In summary, we can see that investment monitoring in Aavishkaar involves both financial and non-financial performance measures including social impact. This dual focus of social venture capitalists has been reported in previous studies that suggest SVCs returns are both financial averaging as well as social (Miller & Wesley, 2010).

### Scaling period: rapid growth in investments (2006-2009)

Data from Aavishkaar on the deployment of growth strategies is summarised in Table 7.8.

As illustrated in Table 7.8 a number of collaborative initiatives were undertaken which broadly constitute an inorganic growth strategy (Austin et al., 2006). Collaborations enable partnering social enterprises to gain scarce resources and complement each other's capabilities (Seelos & Mair, 2005, Dees et al., 2004).

**Table 7.8 Scaling of Aavishkaar's social innovation**

| Scaling strategies   | Evidence from case study  |
|--|---|
| Collaboration with Investor networks (inorganic growth)    | <i>"In 2007, NABARD, India's apex rural development bank; CEP investment Trust Fund, a Canadian social venture fund; ENAM capital, part of an Indian group of companies; Lesing Nominees from Jersey; and Aavishkaar International made a joint investment in the Aavishkaar micro-venture capital fund. This increased the fund corpus to USD 6 million" (A2)</i><br><br><i>"We have made investments in 14 micro-enterprises in a range of sectors like rural healthcare, handicrafts production, affordable healthcare and multilingual software" (A1)</i> |
| Collaborations with other organisations (inorganic growth) | <i>"We have entered into several non-binding MOUs with financial institutions, NGOs and entrepreneurship institutions in India to increase its outreach capacity with respect to prospective start-ups that meet its criteria for investment" (A1)</i>  |

Source: Fieldwork 2009

Similarly, Aavishkaar has entered into a number of alliances for the purpose of knowledge sharing and replication (Dees et al., 2004). This is reflected in the last quote in Table 7.8 and also Sanjit points out:

*"Aavishkaar has provided us with equity and more importantly inputs to improve our business and through them we have gained access to a wide network. The networks help us to market our services with minimum costs" (A7)*

The second benefit of forming alliances is that it helps to reduce search costs involved with finding potential investments for funds. This is reflected in this quote:

*"Our work is now widely recognised. We have established networks with several organisations in India. This helps us to identify potential high growth ventures for investments. In our early years, a lot of our resources were tied in the investment search process" (A1)*

In summary, we can see that during the scaling period, Aavishkaar's growth was primarily achieved through collaborative arrangements and alliances.

### 7.3.3 Capital combinations: Aavishkaar

In this subsection the capital combinations in each phase of the social innovation process are considered.

**Table 7.9 Forms of capital in Aavishkaar's social innovation process**

| Forms of capital in social innovation   | Evidence from case study   |
|---|--|
| <p><b>Financial capital – resource constraint</b></p> <p>“The majority of social ventures did not have the seed money needed for the initiation stage” (Sharir &amp; Lerner, 2007 p. 9)</p> | <p><i>“I had no money and no networks. In the first 5 years I did not draw any salary and continued to work hard. I guess my persistence made people start believing in me” (A2)</i></p> <p><i>“We started with only \$200,000 instead of the estimated \$2 million needed for a profitable business model. This meant that our staff was overburdened and under-funded investments slowed our growth” (A2)</i></p> <p><i>“Running operations with a small amount of capital made us develop a more disciplined approach to investments with rigorous due diligence and strong investee accountability” (A2)</i></p> |
| <p><b>Human capital – resource in the social innovation</b></p> <p>“Unlike a commercial entrepreneur, social entrepreneurs are rarely able to pay market rates for key hires” (p. 11)</p>   | <p><i>“After my management degree, I joined GLAN, a government of Gujarat initiative. I interacted with several rural entrepreneurs and this made me realise that they lacked access to risk capital” (A1)</i></p> <p><i>“Our investment managers are all management graduates. We train them in investment management and their experience in the field with entrepreneurs of our investment companies helps them to build expertise” (A1)</i></p>  |
| <p><b>Social capital – enabler</b></p> <p>“the social entrepreneur's social network contributes to the success of a social venture” (Sharir &amp; Lerner, 2007)</p>                         | <p><i>“The Ashoka fellowship I received gave access to the global network of Ashoka fellows” (A2)</i></p>  |

Source: Fieldwork, 2009



### **Financial capital: resource constraint**

Scholars argue that social entrepreneurs lack access to financial capital (Austin et al., 2006) and this has been confirmed by empirical research (Sharir & Lerner, 2006). In the case of Aavishkaar too the social innovation developed in the initiation and development phases under financial constraints (see Table 7.2.3).

As summarised in Table 7.9 we see that financial capital was a resource constraint during the initiation and development phases of the social innovation. This meant that the founder of Aavishkaar had to develop the venture with the resources in hand which is referred to as the 'effectuation process' of opportunity development by an entrepreneur as described in the seminal work of Sarvasthy (2001). Effectuating social entrepreneurs "try to shape and create a solution to social need based on resources at hand" (Corner & Ho, 2010, p. 638) and such resourcefulness can be seen in the case history of Aavishkaar.

In the scaling period of the social innovation too we find that networks established with investors (see Table 7.7) enabled Aavishkaar to raise financial capital for its venture fund. In summary, evidence from the case data suggests that in the early phases of the social innovation, financial capital was a resource constraint. Further, during the scaling period, collaborations with investor networks enabled Aavishkaar to access financial capital.

There is some indication that the financial constraints evidenced in the Aavishkaar case may be context-specific, specifically for India. For instance, Nageswaran (2003) points out that the concept of social venture capitalists in India is a new phenomenon. Moreover, Aavishkaar is organised as a for-profit SEV with a focus on the financial performance as reflected in this quote:

*"Aavishkaar's financial return threshold of 32% IRR provides socially conscious investors with a commercially competitive investment vehicle" (A1)*

The finding provides credence to claims made by Pepin (2005) that social venture capitalist firms are results oriented and have a strong performance orientation. Further, to ensure this, social venture capitalists often ask social ventures they support to produce business plans and performance projections. Evidence for the practice of such strategies to monitor investee companies can be found in interview data collected from organisational informants in Aavishkaar. For instance, Prashant elaborated how he monitored his portfolio of companies:

*"I help clients develop business, design MIS systems for them, develop marketing plans and organise regular review meetings between them and our investment committee on a monthly basis" (A1)*

**Human capital: enabler in Aavishkaar's social innovation process**

Empirical research conducted in the USA investigating social venture capitalists found that prior managerial experience of the founder contributed to the venture's success (Miller & Wesley, 2010). This is clearly evident in Aavishkaar's case as summarised in Table 7.9. For instance, the founder had high levels of generic human capital with his management degrees.

In the development period, besides the human capital of the founder, other members joining the investment team of Aavishkaar were management professionals. The accumulated human capital of this team enabled Aavishkaar to search for potential investment and gain access to networks of potential clients. For instance, the three-year Ashoka fellowship received by Vijay, founder of Aavishkaar helped the venture gain access to the global network of social entrepreneurs. Further, in-house expertise in investment searching and monitoring was developed (or organisational human capital) that helped to get returns on investments. Finally, in the scaling period, Aavishkaar spends considerable time on developing its human capital as indicated by Vijay in the fifth quote in Table 7.9.

To summarise, in Aavishkaar, the human capital of its founder and other organisational members can be identified as a major resource leveraged during the initiation, development and scaling of the social innovation.

**Social capital: enabler of the social innovation process**

Social entrepreneurs are known to extensively leverage their social capital to access scarce resources (Mair & Marti, 2006). For instance, Di Domenico et al. (2010) claim that social entrepreneurs in resource-constrained environments leverage their social networks for innovation. In a recent empirical study on new Israeli social ventures, Sharir & Lerner (2006) found that the social entrepreneur's social network contributed to the venture's success. Thus, scholars argue that social capital is an enabler of social innovation. Evidence from Aavishkaar suggests that social capital was extensively leveraged by the venture's founder and investment management team during the social innovation process as summarised in Table 7.8.

In the initiation period, the idea for a new venture was developed by Vijay, a management professional through regular interaction with rural entrepreneurs (customer social capital). Social capital theorists argue that entrepreneurs get new ideas for innovation from interaction with their close contacts (Schutjens & Völker, 2010; Lechner & Dowling, 2003). In the development

periods, social networks of the founder (Alumni networks) enabled him to take collective action to raise financial capital to launch a new micro venture fund.

In the development and scaling period, social networks were developed with founder entrepreneurs of investee companies through frequent interaction during investment monitoring by the investment team. Research suggests that frequent interaction (Gulati, 1995; Tsai & Ghoshal, 1998) and open communication enhances trust (a form of social capital) which makes individuals more willing to share knowledge (Ring & Van de Ven, 1994; Uzzi, 1996).

Trust can also develop because of shared common goals or values (Barber, 1983). In the case of Aavishkaar, trust developed as social objectives of the SEV and its socially conscious overseas investors were in congruence.

In summary, as depicted in Table 7.8, different forms of social capital were leveraged throughout the social innovation process suggesting that social capital was an enabler in the case of Aavishkaar.

### **7.3.4 Value creation – economic and social value**

Research in the area of social entrepreneurship suggests that SEVs create blended value both economic and social value (Zahra et al., 2009). Further, social value creation is regarded as the distinctive characteristic of social entrepreneurship (Christie & Honig, 2006; Tracey & Jarvis, 2007). A common measure of economic value for venture capital organisations is the number of investments made and the total finance raised for investment. At the time that data was collected, Aavishkaar had raised over \$35 million and invested in 22 companies.

In terms of social value, standardised measures are still in developmental stages (Paton, 2003) with no established industry standards. In terms of social impact, we can argue that Aavishkaar potentially has thousands of direct and indirect beneficiaries as detailed in section 7.2.5.1. Pol & Ville (2009) suggest that a desirable social innovation is an innovation that has a positive influence on the quality and/or quantity of life. Following this line of thought, in Box 1 the account of one of the founders of an investee company is included.

The founder entrepreneur's account provided in Box 1 suggests that she believes that the financial and management support provided by Aavishkaar team helped her to grow her business, Rangasutra. First, equity provided by Aavishkaar helped Rangasutra to scale its operations. Then, management support and mentoring by the investment team enabled Sunita, a social worker by

### **BOX 1: Rangasutra, an entrepreneur's account of the impact of Aavishkaar**

Sunita, a social worker founded Rangasutra in 2006. She had earlier worked in various NGOs. Her field experience made her realise that despite providing financial aid, NGOs and charities were unable to empower local communities in rural villages in India. She felt that these non-profits were promoting a culture of dependency by providing donations or grants. She felt that there would be a better way of doing things and after talking to community representatives she realised that charities could not contribute to the economic development of the local populations. She felt that people needed to develop faith in their ability or skills to invest in their own future.

Sunita began looking for investors to invest in a new enterprise that could utilise the skills of the rural folk. Banks, family and friends showed no interest and she invested her own money to launch Rangasutra. Aavishkaar invested in her firm in 2007. She also received management support which she found very useful given that she lacked knowledge of financial aspects of the business. Business plans were made with the Aavishkaar team and they attended board meetings questioning her ideas so that she had to think carefully.

In terms of economic performance, she reports that her turnover increased from Rs. 26 lakhs (\$50000) in 2006-07 to Rs. 4.8 Crores (Roughly \$1 million). So we have had tremendous growth. In terms of social impact, no measures were being reported in the financial statements. However, Sunita stated that Rangasutra had 1066 members who were all rural artisans and a large proportion of these were women. Through collective ownership, these rural folk could gain self-employment. Our head office team at Delhi consists of 15 members who are either designers or marketing professionals. A number of clothes retailers in India and overseas are our clients.

profession to gain entrepreneurial skills and develop management systems to streamline operations. Further, careful scrutiny of business plans by Aavishkaar's investment team enabled her to develop business skills. In terms of success, the account suggests that turnover growth of Rangasutra following the investment by Aavishkaar was exponential. In 2009, Rangasutra provided a thousand rural artisans in remote villages of India with self-employment opportunities. Further, as Rangasutra is structured as a cooperative this ensured participation by artisans in the decision making process leading to their empowerment. Thus, the term social in the social innovation can be identified as the efforts made to enhance the quality of life of marginalised people – here, rural artisans in remote villages.

In summary, by any measures, economic or social, we can see that Aavishkaar has achieved spectacular growth in a short time span of seven years thus representing a successful social innovation.

## **7.4 Summary**

This chapter presents the within-case analysis of social innovation at Aavishkaar. This was identified as the introduction of a novel business model based on a new business concept – micro-venture capital. Then, the cultural historical and organisational contexts were considered as previous research has highlighted the context-specificity of social innovations (e.g., Tapsell and Woods, 2010). Then, a detailed analysis was presented using the social innovation framework developed in Chapter 3 which led to the following key findings:

- 1) The recognition of accessibility issues for equity finance for rural entrepreneurs represented a social entrepreneurial opportunity that was developed through collective action by a management professional working in a government initiative;
- 2) In the initiation period, industry-specific human capital of the founder was developed through experience in the public sector. In the development period, this led to the foundation of a for-profit SEV and the launching of a micro-venture capital fund. During the scaling period, the venture scaled its operations by building networks with investors, financial institutions, customers, and NGOs working in the social sector;
- 3) The social innovation developed under resource constraints. Financial capital was lacking in the initiation phase and was limited in the development phase.
- 4) The human capital of the founder and organisational members (both generic and industry-specific human capital) was leveraged throughout the social innovation.
- 5) Social capital was identified as an enabler in this social innovation and was extensively leveraged to overcome resource constraints.

In summary, this case suggests that social innovation in for-profit SEVs involves the introduction of new business models with embedded logic for empowering target beneficiaries as claimed in previous research by Santos (2010).

## **Chapter 8: Discussion of Cross-Case Themes**

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### **8.1 Introduction**

The overall aim of this study is to investigate the social innovation process within the context of social entrepreneurship. In this chapter, the discussion of cross-case themes emerging from Chapters 5, 6 and 7 is presented, referring back to Figure 3.1 developed in Chapter 3. Figure 3.1 thus acts as a template to structure the discussions. Cross-case analysis allows patterns of interest to emerge across multiple cases following the detailed analysis of the individual within-case reports. The findings will be put into perspective with the literature on innovation and social entrepreneurship reviewed in Chapters 2 and 3 respectively. All quotations of contributions from participants refer back to the empirical chapters, 5, 6 and 7.

This chapter aims to address the research questions of this study. It is structured around the three elements of Figure 3.1: social innovation process, capital combination and value created. The first section addresses the first research question and identifies the characteristics of the social innovation process including its outcomes. The second section addresses the second research question on how different forms of capital are combined in the social innovation process to overcome resource constraints. This section describes how social entrepreneurial ventures overcome financial constraints by leveraging their human and social capitals. The conclusions of this study with regard to the research questions are drawn at the end of the chapter and reiterated in Chapter 9.

### **8.2 Social innovation process**

The first research question of this study, as identified in Chapter 1 is: what are the characteristics of the phases of the social innovation process? In this section, Figure 3.1 is used as a template to present the discussions of cross-case themes emerging from analysis of sections 5.3, 6.3 and 7.3.

### 8.2.1 Novelty: new business models

Cross-case analysis suggests that social innovations within the context of for-profit SEVs involve the introduction of new business models with an embedded social purpose as claimed in previous research (Santos, 2010; Phils et al., 2008). These new business models based on new business concepts provide sustainable solutions to a social problem or need that can be seen as a social entrepreneurial opportunity (Corner & Ho, 2010). Table 8.1 summarises the novelty of the business models in each case.

**Table 8.1 Novelty in business models of the three cases of for-profit SEVs**

| SEV: Novelty | Principles  | Novelty/Social purpose   |
|--------------|---|--|
| Lijjat       | Collective ownership<br><br>Cooperation<br><br>Self-reliance<br><br>Profit-sharing                      | New business model based on <i>Sarvodaya</i> ideology<br><br>Social mission: self-employment for women (from lower income groups)  |
| Mahiti       | Free distribution of software<br><br>Sharing source code with clients                                   | New business model based on open source ideology<br><br>Social mission: enhance accessibility of information for the target beneficiaries of social sector organisations |
| Aavishkaar   | Identifying and investing in socially relevant rural innovations<br><br>Support to social entrepreneurs | New business model based on new business concept: micro-venture capital<br><br>Social mission: support socially relevant rural innovations                               |

In case 1, Lijjat women from lower income groups facing patriarchal sanctions founded a women’s cooperative as a means to gain self-employment. The institution was founded on the principles of *Sarvodaya*, a new ideology put forward by Gandhi, the leader of the Indian freedom movement. The successful practice of this ideology over five decades created a for-profit SEV that empowered thousands of its women members. In the case of Mahiti, the novel business model is based on the open source ideology that promotes the affordability, transparency and accessibility of software for the wider public (Rossi, 1996). Its successful practice enhanced the

affordability and accessibility of IT services for social purpose organisations and their beneficiaries. Finally, in Aavishkaar, the novel solution involved the creation of a new micro-venture capital fund that supported socially relevant innovations in India thereby exemplifying a social venture capital firm (Morino & Shore, 2004; Emerson, 2000). In summary, cross-case evidence indicates that the sources of novelty in social innovations are the new business models of for-profit SEVs, which represent the successful application of new ideologies or a business concept to serve a social purpose.

### 8.2.2 Social entrepreneurial opportunities develop through collective action

Cross-case analysis of the three cases of social innovation investigated in this study suggests that opportunity development within the context of for-profit SEVs involves collective action. A similar pattern of collective action has been reported in empirical studies investigating opportunity development in social ventures. For instance, in their study of social enterprises in New Zealand, Corner and Ho (2010) found that opportunity development was pursued by multiple actors involved in each of the innovation episodes. Similarly, Haugh (2007) investigated community-led venture creation in Scotland where communities were engaged in the creation of non-profit social ventures.

**Table 8.2: Social entrepreneurial opportunities develop through collective action**

| SEV        | Collective action              | Evidence   |
|------------|--------------------------------|--|
| Lijjat     | Collective entrepreneurship    | Women members of the cooperative following collective ownership and profit sharing.                            |
| Mahiti     | Team entrepreneurship          | The co-founders who worked as IT professionals/management professionals in large NGOs in India.                |
| Aavishkaar | Collaborative entrepreneurship | The founder social entrepreneur in collaboration with investor networks launched a micro-venture capital firm. |

In the first case, founders of the women’s cooperative engaged in collective entrepreneurship as a means to gain self-employment by using their basic cooking skills. In the second case, professionals working in the social sector engaged in team entrepreneurship to start a new IT firm to serve social sector organisations. Finally, in the third case, a management professional working in the public sector, engaged in collaborative entrepreneurship to pursue opportunities for



providing equity finance to socially relevant innovations. This pattern of collective action by social entrepreneurs is in contrast to the dominant discourse in social entrepreneurship literature that describes social entrepreneurs as heroic individuals or agents of social change (e.g., Zahra et al. 2009; Nicholls & Cho, 2006). This then necessitates further research into the nature of collective action in opportunity development within the context of social entrepreneurship.

### **8.2.3 Social innovation process has three temporal periods**

In Figure 3.1 three temporal periods were identified: initiation; development and scaling. Empirical evidence from the three cases indicates that these three periods are identifiable in each social innovation. This is in line with previous empirical research conducted in entrepreneurial ventures (Van de Ven et al., 2008; McFadzean et al., 2005; Shaw et al., 2005). However, this study goes beyond previous innovation studies to examine the innovation process in a new context of for-profit SEVs. This helped to identify some key differences in the activities constituting each phase of the social innovation process as detailed below.

#### **Initiation period**

Cross-case analysis suggests that during the initiation period of a social innovation, the key activities involve experimentation and refinement of new ideas conjectured as solutions to a social need or problem. Details are provided in sections 5.3.2; 6.3.2 and 7.3.2 while a brief summary is provided next.

#### **Case 1: Lijjat**

The women founders were influenced by the Sarvodaya ideology and they experimented with ways to operationalise its principles (see Table 5.4 for a summary). For instance, profit sharing was practised when the profits from the first six months of operations were distributed as gold coins. Then, escalating customer demands were met by expanding group membership. Further, innovative practices such as modularised production processes and daily accounting systems were developed, which supported collective entrepreneurship.

#### **Case 2: Mahiti**

The co-founders were influenced by their work experiences in the social sector (Table 6.6). The initial idea was incubated elsewhere and refined by field experiences of the co-founders working within the IT department of a large NGO. This enabled them to recognise accessibility issues and constraints of a non-profit format for a new IT services-based SEV.

### **Case 3: Aavishkaar**

The founder developed the idea of a new venture while working in a government initiative to promote rural innovations. In this role, he recognised that rural entrepreneurs of high-growth ventures lacked access to equity finance as well as the limitations of a non-profit format for a new venture. Finally, he was able to persuade overseas investors within his alumni network to invest in a new micro-venture capital fund to support socially relevant innovations in India.

The pattern of experimentation and refinement of new ideas in the initiation period has been reported in previous empirical research. For instance, Corner and Ho (2010) investigated innovation episodes in social ventures in New Zealand and found evidence of experimentation in opportunity development. Similarly, Haugh (2007) investigated community-led social venture creation in Scotland and reported experimentation within early stages of a new venture's creation.

Evidence from the three cases also suggests that the identification of a social problem/need was based on the experiences of the founder social entrepreneur(s). For instance, women founders in case 1 recognised employment barriers for women due to patriarchal restrictions that they faced. In cases 2 and 3, the founders recognised accessibility issues for IT and equity finance while working in the social sector. This finding supports claims made by Mumford (2002) that in social innovation, "problem identification or definition seems to be experientially based" (p. 263).

### **Development period**

Evidence from cross-case analysis of the development period revealed some unique characteristics of social innovations as compared to business innovations. Specifically, activities in this period included the formulation of a social mission for the new venture at the time of its registration, as was previously claimed by Guclu et al. (2002). Next, the business model was designed and resources mobilised to best serve the social purpose. Here, as indicated in previous research on innovation within non-profits (McDonald, 2007; Weerwardana & Mort, 2001), the social mission acts as a guideline for developing an innovation. In contrast, research on business innovations emphasises that profit motives drive innovators to engage in innovative activities (Van de Ven et al., 2008; Pol & Vile, 2009). Details of development period activities can be seen in sections 5.3.2; 6.3.2 and 7.3. Here, a brief summary of its key activities are presented.

### **Case 1: Lijjat**

In 1966, at the time of registration of the women's cooperative, its objective was defined as "the promotion of self-employment opportunities for women". Further, innovative practices such as

profit sharing and modularised production processes that had emerged in the initiation period were institutionalised in the business model. Then, a working capital loan was raised to purchase equipment and for branch diversification. Similarly, a cash sales policy was adopted for raising internal finance for operations.

### **Case 2: Mahiti**

In 2002, at the time of registration, a social mission was adopted by the entrepreneurial team to support social sector organisations. Further, the open source ideology in software development was adopted as it could serve the social mission effectively. The founders also decided to cross-subsidise their social projects from profits made by serving large organisations in the social sector in India.

### **Case 3: Aavishkaar**

In 2002, at the time of registration of the new micro-venture capital fund, its social mission was defined as supporting socially relevant innovations in India. Then, funds were sourced from a wide network of socially-conscious investors and institutions such as NABARD – India’s apex rural development Bank; CORDAID – a Dutch NGO; and CEP Investment Trust Fund – a Canadian social venture fund.

Cross-case evidence seen in the development period of the social innovation is in line with claims made in previous research that innovation within SEVs has an embedded social purpose (Chell et al., 2010; Austin et al., 2006). The evidence from this study goes beyond acknowledging the role of the social mission, as highlighted in McDonald (2007) and Weerwardana and Sullivan Mort (2001), to describe how social missions were formulated and resourced in the SEVs. Further, evidence from the three cases suggests that the for-profit format was designed to provide “sustainable solutions to problems they address in contrast to seeking sustainable advantage for their organisations” (Santos, 2010, p. 32).

### **Scaling period**

Evidence from cross-case analysis of the scaling period supports claims made by Austin et al. (2006) that SEVs essentially have three strategies to disseminate social innovations: direct scaling (or organic growth), partnerships with other organisations (or inorganic growth) and some combination of both these approaches (p. 7). Detailed strategies are presented in Tables 5.8, 6.8 and 7.8 while a summary is presented next.

### **Case 1: Lijjat**

In Lijjat, during the scaling period, the business model of Mumbai was replicated throughout India. Further, product diversification was carried out to scale the innovation following an organic growth strategy.

### **Case 2: Mahiti**

In Mahiti, a combination of organic and inorganic growth strategies was deployed during the scaling period. For instance, in-house expertise in open source development was developed by training and orienting newly appointed employees. Similarly, student communities for developing software were developed. Then, inorganic growth strategies included a merger with a commercial IT firm, Celerity, as well as through collaborative projects such as the MySME News project.

### **Case 3: Aavishkaar**

In Aavishkaar, during the scaling phase, a number of collaborative initiatives were undertaken, which broadly constitute an inorganic growth strategy (Austin et al., 2006). For instance, in 2007, NABARD; CEP Investment Trust Fund; ENAM Capital, part of an Indian group of companies; Lesing Nominees from Jersey; and Aavishkaar International made a joint investment in the Aavishkaar micro-venture capital fund. This increased the fund corpus to US\$6 million. Similarly, collaborations with other organisations in the social sector were undertaken by entering into non-binding MOUs with NGOs and entrepreneurship institutions in India.

Cross-case evidence seen in the scaling period of each social innovation supports claims made in previous research that SEVs enter into collaborations to obtain scarce resources and complement each other's capabilities (Seelos & Mair, 2005; Tracey & Jarvis, 2007). This study goes beyond previous research to describe how collaborations enable SEVs to develop and scale social innovations. Further, social capital theory is used to explain how such collaborative networks contribute to innovation in each case of social entrepreneurial venture.

## **8.2.4 Blended value in social innovations**

The evidence presented in this study (sections 5.3.4; 6.3.4; and 7.3.4) suggests that social innovations generate blended value, that is, both economic and social value. Similar claims have been made in previous research (Zahra et al., 2009; Christie & Honig, 2006; Tracey & Jarvis, 2007). This study goes further by providing examples of economic and social value created in each social innovation as summarised in Table 8.3.

In case 1, the turnover in 2009 was an impressive US\$111 million and 42,000 women members from lower income groups were identified as the target beneficiaries. In case 2, one thousand social purpose organisations had been served while in the third case, 24 social innovations had been supported with micro-venture capital. The direct and indirect beneficiaries were identified in both case 2 and 3 as social purpose organisations and their target beneficiaries.

**Table 8.3: Blended value in social innovations**

| SEV        | Economic value   | Social value   |
|------------|--|--|
| Lijjat     | In 2009, turnover was US\$111 million  | Direct beneficiaries:<br><br>Self-employment for 42,000 women from lower income groups   |
| Aavishkaar | In 2009, the company had serviced nearly 1000 social sector organisations/projects | Direct beneficiaries:<br>Social purpose organisations<br><br>Indirect beneficiaries:<br>Target beneficiaries of social purpose organisations   |
| Mahiti     | By 2009, over US\$35 million had been invested in 24 new ventures                  | Direct beneficiaries:<br>Entrepreneurs and employees of 24 social innovations<br><br>Indirect beneficiaries:<br>Rural and semi-urban population in India that are the target beneficiaries of the social innovations |

Evidence presented in Table 8.3 suggests that social innovations have a wide reach, benefiting thousands of people from marginalised sections of society such as lower income women or micro entrepreneurs. This finding is in line with claims made by Tan et al. (2005) that the targeted community (and not the innovator as in commercial innovation) is the main beneficiary of a social innovation.

Researchers have previously highlighted the challenges associated with measuring social value (Dees & Anderson, 2003a; 2003b; Paton, 2003). This study has shown that the accounts of target beneficiaries (or an interpretive approach) can be used to evaluate the social impact of a social innovation. In Chapters 5, 6 and 7, the accounts of the beneficiaries were included in line with the interpretive approach of this study. An interpretive approach is beneficial in investigating innovations as it presents the view of the actors involved in the innovation process (Wolfe, 1994).

In essence, across the cases, the social innovations appear to have enhanced the quality of life for the target beneficiaries (Sen, 1999). This implies that social innovations can potentially contribute to economic and social development in developing countries like India.

### **8.3 Capital combinations in the social innovation process**

The second research question of this study is: how are various forms of capital combined in the innovation process to overcome resource constraints? Cross-case evidence from sections 5.3.3, 6.3.3 and 7.3.3 is presented in this section as summarised in Table 8.4.

#### **Financial capital: resource constraint**

Cross-case evidence supports the assertion that financial capital is a constraint in the social innovation process as claimed by Austin et al. (2006) and Alvord et al. (2004). For instance, Lijjat was founded in 1959 with a start-up capital of £1 (L1). Then, in 1966 a working capital grant of £10,000 was repaid quickly (L1). Finally, as per the interview quote of a management committee member: “We do not raise funds externally” (L2), the organisation refrains from external borrowings. In addition, frugal practices, such as a daily manual system and a cash sales policy, has reduced the institution’s dependence on external sources of finance.

In the second case, Mahiti’s co-founder stated that: “the financial capital invested in our company is our own.... We do not approach venture capitalists, angel investors or social investors” (M2). This indicates that this enterprise also refrained from external borrowings. Further, the SEV adopted stringent financial management practices such as monthly accounting, maintaining a small core team while undertaking collaborative projects with client organisations to reduce financial requirements. In the third case, Aavishkaar, financial capital was raised in the development period from “overseas investors to launch a new micro-venture capital fund in India” (A1). However, “the funds raised were \$200,000, a fraction of the \$2 million requirement” (A1), which resulted in a disciplined approach to investments.

Cross-case evidence suggests that SEVs find it difficult to raise external finance, especially start-up capital in the initiation period. This finding is in line with findings from a large-scale empirical study by Sharir and Lerner (2006) on new Israeli social ventures where the majority lacked access to seed capital in the initiation stage. However, the Israeli study was quantitative in nature and did not explain how social entrepreneurs overcome such financial constraints.

Chapters 5, 6 and 7 provide detailed historical accounts that illustrate the innovative use of financial capital in each social innovation. The importance of a historical context was highlighted by Tapsell and Woods (2010). In their study of indigenous entrepreneurship amongst Maori

**Table 8.4 Capital combinations in the social innovation process**

| Phases                    | Lijjat  | Mahiti  | Aavishkaar   |
|---------------------------|---|---|--|
| <b>Initiation Period</b>  | <p>£1 start-up capital</p> <p>Low levels of human capital</p> <p>Social capital of women founders enabled them to engage in collective entrepreneurship</p>   | <p>Finance absent</p> <p>High human capital levels</p> <p>Social capital of founders enabled team entrepreneurship</p>  | <p>Finance absent</p> <p>High human capital levels</p> <p>Social capital of founder enabled idea generation</p>  |
| <b>Development Period</b> | <p>Working capital loan obtained</p> <p>Daily accounting and cash sales limit financial needs</p> <p>Human capital (company specific) developed through tacit knowledge transfer to new recruits by experienced members</p> <p>Social capital of women members developed through frequent interaction</p> | <p>Founders provide start-up capital</p> <p>Human capital: expertise in open sourcing developed</p> <p>Internal social capital developed through team interaction and externally through client collaboration</p> | <p>Founder raises finance from his alumni networks</p> <p>Human capital: expertise in fund management developed</p> <p>Internal social capital developed through team interaction and externally through collaborations with clients, investors and NGOs</p> |
| <b>Scaling Period</b>     | <p>Cash generated internally and used for diversification and frugal approach to financial management</p> <p>Systematic development of human capital</p> <p>External social capital developed with suppliers and internally through branch interactions</p>   | <p>Collaborations used to obtain financial resources</p> <p>Systematic development of human capital</p> <p>External social capital developed with clients and internally through team interaction</p>             | <p>Finance raised through investor networks</p> <p>Systematic development of human capital</p> <p>External social capital developed with investors and entrepreneurs. Internally, frequent interactions within the investment team.</p>                      |

tribes in New Zealand, Tapsell and Woods (2010) found that 'tradition and heritage form the path to innovation' (p. 551), which emphasises the importance of investigating historical and cultural contexts in social entrepreneurship.

There is some indication that the financial constraints evidenced in all three cases may be context-specific to India. First, in both case 2 and 3, the social entrepreneurs had invested their personal finance in the start-up stages. Then, all the cases had adopted a for-profit organisational format. These findings are in contrast to research conducted in the UK, which reported that "social entrepreneurs rarely invest or risk personal finance in their venture and neither do they seek profit maximisation for personal gain" (Shaw & Carter, 2007, p. 431). One explanation could be that a for-profit organisational structure would be preferred in a developing country context like India where institutional support for social entrepreneurship may be lacking. However, these differences call for further comparative research to determine how social innovations compensate for financial constraints.

#### **Human capital: resource constraint and enabler in social innovation**

In terms of human capital, there is much diversity within the three cases of social innovation investigated, which perhaps reflects sectoral differences. For instance, Lijjat is a cottage industry, Mahiti is an IT firm and Aavishkaar is a micro-venture capital firm. However, cross-case evidence suggests that these SEVs invest considerable resources to enhance the specific human capital of their members.

The Lijjat case confirms claims made in previous research that SEVs find it difficult to mobilise human resources with high levels of human capital (Austin et al., 2006). First, the women founders as well as current members are mostly illiterate women with basic cooking skills. The Lijjat case is unique in that it suggests that high levels of human capital or prior managerial experience are not a pre-requisite for successful social innovation as claimed by Sharir and Lerner (2006). Lijjat's case exemplifies how SEVs can overcome human capital constraints by developing the task specific human capital of its members through training and tacit knowledge transfer. For instance, accounts of sister members (L2, L3) provide details on the training they received as new recruits and the training they provide as experienced members.

Evidence from Mahiti and Aavishkaar is in line with findings from previous research that prior managerial experience of the entrepreneur contributes to the venture's success (Sharir & Lerner,



2006). In both of these cases, the founder social entrepreneurs had high levels of generic human capital and industry specific human capital gained through work experience in the social sector. For instance, in Mahiti, two of the co-founders were IT professionals and, in Aavishkaar, the founder was a management professional. Similarly, members recruited in both the organisations were IT or management professionals. Further, evidence suggests that both the organisations invest considerable resources to develop the industry specific skills of their recruits. For instance, accounts of both the co-founder of Mahiti (M2) and of Aavishkaar (A1) provide details on the training provided to organisational members. These findings support claims made by Kong (2007) that social enterprises develop their intangible forms of capital to overcome financial constraints.

### **Social capital: enabler of the social innovation process**

Evidence from across the three cases confirms claims made in previous research that social entrepreneurs leverage their social networks to overcome resource constraints (Peredo & Chrisman, 2006; Sharir & Lerner, 2006). This implies that social capital is an enabler of social innovation. However, it is imperative to reiterate here, as explained in Chapter 2, that social capital can have constraining as well as positive effects. This study goes beyond previous research and draws on insights from social capital theory on how social capital is extensively leveraged in the social innovation process.

In case 1, social capital was extensively leveraged throughout the social innovation process. In the initiation period, the venture was founded by women from similar socio-economic backgrounds (L1). Then, the majority of sister members had neighbours or relatives who introduced them to Lijjat (e.g., L2, L3, L4). These accounts indicate that both structural (close ties) and cognitive (common values) existed amongst the sister members (Naphiet & Ghoshal, 1998; Tsai & Ghoshal, 1998). In the initiation period, the solidarity amongst women members from similar socio-economic backgrounds is likely to have encouraged the cooperation necessary for collective entrepreneurship. In the development and scaling period, frequent interactions and a participative decision making style enhanced trust (a form of social capital) which in turn induced cooperation (Ring & Van de Ven, 1994; Uzzi, 1996).

In case 2, Mahiti, several forms of social capital were innovatively combined in the social innovation. In the initiation period, frequent interaction and a common vision led three professionals from the social sector to launch a new venture. In the development and scaling period, cross-functional teams enhanced interaction and open communication, thereby facilitating

innovation (Uzzi, 1996). Similarly, external social capital was developed through the Ashoka fellowship (M2) and through the IT event called Asia Source (M1), which provided a potential list of client organisations from 42 countries.

In the case of Aavishkaar, during the initiation period, the idea for a new venture was developed by Vijay, a management professional, through regular interaction with rural entrepreneurs (customer social capital) (A1). In the development period, social networks of the founder (IIM Alumni) enabled him to raise financial capital (A1). Further, social networks were developed in the development and scaling period with founder entrepreneurs of investee companies. Frequent interaction with founders and investor networks enhanced trust and this in turn facilitated innovation.

#### **8.4 Chapter summary**

In summary, the contributions from the participants in this study emphasise the social nature of the social innovation process. Coming back to the first research question of this study, what are the characteristics of each phase of the social innovation process, the answer has already been given. Three temporal periods: initiation, development and scaling can be identified in each of the social innovations, with constituent activities as detailed in the empirical chapters. Such a detailed investigation of the social innovation process is lacking in the nine exploratory studies on social innovations reviewed in Chapter 3 (section 3.3).

In addressing the second research question, how are various capital forms combined to overcome resource constraints, the answer is that social capital can be identified as a key enabler of social innovation. Evidence presented in this study suggests that for-profit SEVs extensively leverage different forms of social capital to overcome resource constraints in their environments. Similarly, a number of studies in entrepreneurship literature suggest that social capital enables entrepreneurs to overcome resource constraints (Burt, 2005; Granovetter, 1985). This study's conclusions are presented in Chapter 9 that follows.

## **Chapter 9: Contributions and Future Research**

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### **9.1 Introduction**

This chapter articulates the main contributions of this research and also sets out a future research agenda in continuation of the work achieved here. Firstly, in sections 9.2 and 9.3, the main theoretical and practical contributions of this study are highlighted. Subsequently, in section 9.4, the agenda for future research work is laid out.

### **9.2 Conclusions: social innovation process in for-profit SEVs**

The overall research aim guiding this study has been to explore the social innovation process within the context of social entrepreneurship. The two research questions formulated for this thesis were: RQ1 What are the phases of the social innovation process? And, RQ2 How are various forms of capital combined in the social innovation process to overcome resource constraints?

More specifically, through case analysis of social innovations within for-profit SEVs this research pursued the following objectives:

- To critically review the innovation literature in order to develop an integrated framework that can be used to explain resource combinations in the innovation process;
- To critically review the social entrepreneurship literature in order to identify the distinctive features of social innovation and modify the integrated framework for social innovations;
- To use the developed social innovation framework as a template in the empirical investigation of three cases of social innovation in three for-profit SEVs; and
- To develop new insights into the social innovation process such as its contextual factors, its constituent phases and to examine how various forms of capital are exploited in the process.

Chapter 2 addresses the first research objective leading to the development of a new, holistic capital-based framework (Figure 2.1) for entrepreneurial innovation. Chapter 3 addresses the second objective and, following a review of the social entrepreneurship literature, ends with a modified framework for the social innovation process (Figure 3.1). This framework is then used as a template to present the research findings and their critical discussion with regard to existing research in the empirical chapters 5, 6 and 7. Chapter 8 presents the cross-case analysis of the empirical chapters in order to identify common patterns across the three cases, with particular regard to the research questions, and evaluates the findings in the light of previous research.

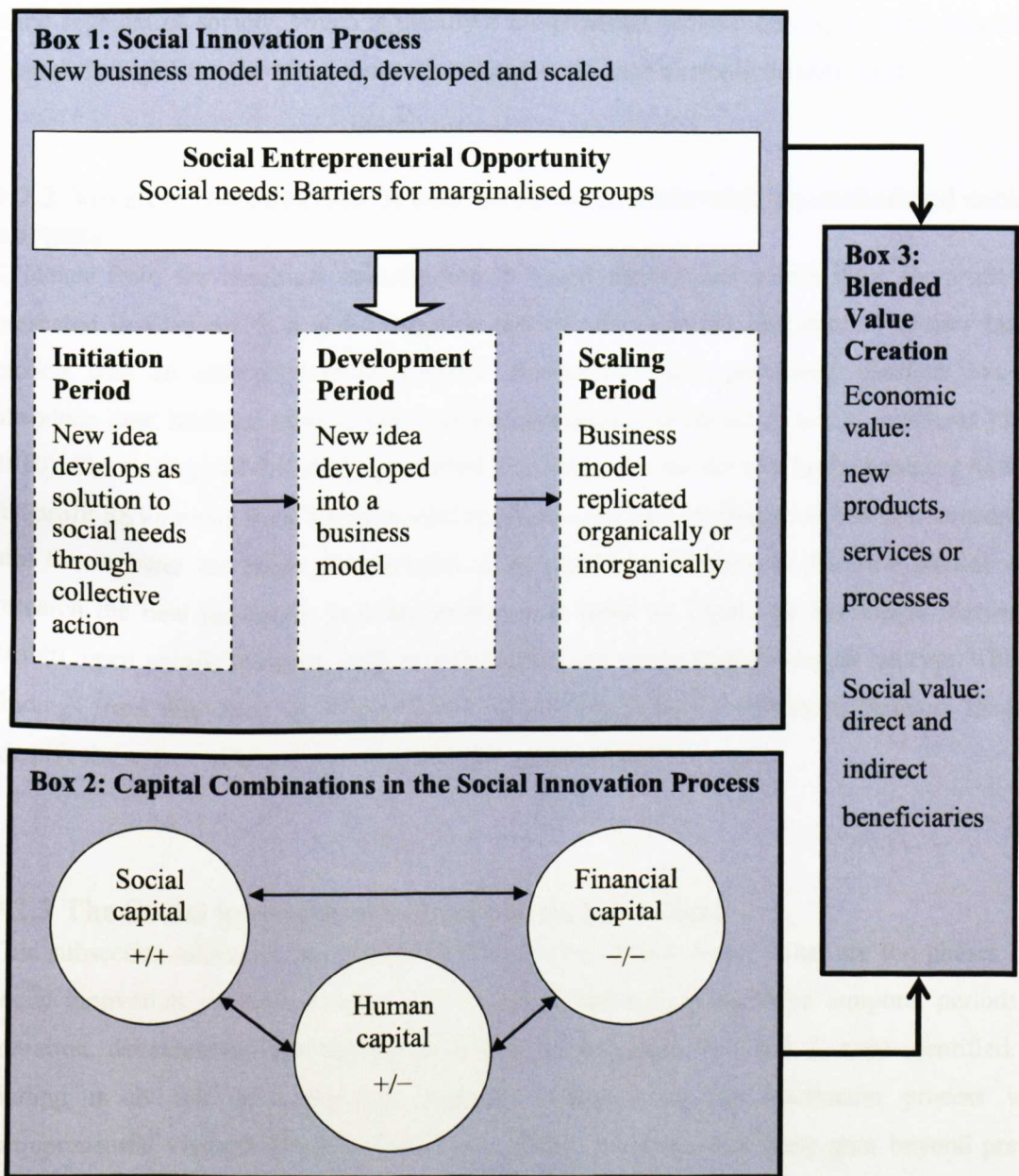
### **9.2.1 Framework for the social innovation process in for-profit SEVs**

In summary, the social innovation process within each for-profit SEV, investigated in this study, involved the development of a new business model with an embedded social purpose as depicted in Figure 9.1. The phases of the social innovation process and the capital combinations within each phase have been shown in discussions and illustrations in the empirical chapters 5, 6, 7 and 8.

The capital combinations within the social innovation process of for-profit SEVs shows several distinctive features compared to the innovation process of entrepreneurial ventures depicted in Figure 2.1. This study's findings suggest that the social innovation process involves a greater leverage of social capital. This then takes original research from Alvord et al. (2004) and Tapsell and Woods (2010) one step further. More importantly, collective action was evident throughout the social innovation process emphasising the 'social' nature of social innovations.

The final social innovation framework is depicted in Figure 9.1, which incorporates the cross-case findings presented in Chapter 8 and consists of four elements each representing a broad theme. First, the novelty in each case of social innovation involved the introduction by the SEV of new business models with an embedded social purpose. The findings support prior research by Santos (2010) that new business models introduced by SEVs have an embedded social purpose. Second, three temporal periods are identifiable in each case of social innovation. This supports previous research conducted on the entrepreneurial innovation process within the context of entrepreneurial ventures by Van de Ven et al. (2008). Third, social capital was found to be extensively leveraged throughout the social innovation process. This finding takes the original research by Alvord et al. (2004) one step further to depict how social capital was leveraged in each social innovation to overcome the resource constraints. Fourth, blended value, that is,

Figure 9.1 Final framework in for-profit social entrepreneurial ventures



**Note:** Box 1 represents the social innovation process. It illustrates the social entrepreneurial opportunity that led to the development of a new business model as the temporal periods of the social innovation. Box 2 represents the new capital combinations: financial capital is a resource constraint depicted by (-/-), social capital is a resource as indicated by (+/+) and human capital is both a resource and a constraint as indicated by (+/-). Box 3 indicates the blended value, that is economic value as captured by new services/products offered and social value in terms of indirect and direct beneficiaries.

economic and social value, represents the outcome of the social innovation process. This finding supports claims made by Tan et al. (2005) that benefits from social innovation primarily accrue to some segment of society, which is usually a marginalised section. Having briefly explained the themes derived from the social innovation framework, each theme is detailed next.

### **9.2.2 Novelty: Introduction of new business models with an embedded social purpose**

Evidence from the empirical investigation of social innovations within three for-profit SEVs presented in Chapters 5, 6 and 7 suggests that novelty involves introduction of new business models with an embedded social purpose. Researchers have previously claimed that SEVs introduce new business models that provide sustainable solutions to social problems (Santos, 2010). The findings of this study go further to explain that the novelty in the business models of for-profit SEVs stems from the successful application of new ideologies or business concepts that aim to empower the target beneficiaries of the social innovation. In the case studies of this research the new ideologies or business concepts were: in Lijjat, the Sarvodaya ideology; in Mahiti, open source ideology; and, in Aavishkaar, the micro-venture capital concept. Thus, the findings from this study go beyond mere acknowledgement of novelty in business models to identify the source of novelty as new concepts or ideologies.

### **9.2.3 The Social innovation process has three periods**

This subsection addresses the first research question of this study: What are the phases of the social innovation process? In each case of social innovation, the three temporal periods, i.e., initiation, development and scaling, as detailed in Chapters 5, 6 and 7, were identified. This finding is in line with previous empirical research on the innovation process within entrepreneurial ventures (Van de Ven et al., 2008). However, this study goes beyond previous research to investigate innovation in a new context, that is, SEVs, and the activities in each of the periods are discussed next.

#### **Initiation period**

Evidence from across the three cases, suggests that during the initiation period, a new idea for a new venture evolves through experimentation and refinement of ideas. Examples of how these ideas were developed were given for each case in subsection 8.2.3 and this pattern of

experimentation in opportunity development in relation to social ventures was also reported by Corner and Ho (2010) in New Zealand, and by Haugh (2007) in Scotland.

Another key finding was that in all three cases, the identification of a social problem/need was based on the experiences of the founder social entrepreneurs. This finding is in line with Mumford's (2002) research, which also found that identification of problems is usually based on the founder's own experience.

Cross-case evidence presented in Table 8.2, and described in-depth in section 8.2.2, suggests that opportunity development in for-profit SEVs involves collective action. In previous empirical research, Corner and Ho (2010) found evidence for collective action in opportunity development within social ventures in New Zealand. However, this research goes further to suggest that social capital theory can help explain why multiple actors engage in such collective action.

### **Development Period**

The research revealed some unique characteristics of social innovations as compared to business innovations. Specifically, the new business model that was developed had an embedded social purpose as claimed in previous research by McDonald (2007) and Weerwardana and Sullivan Mort (2001) on non-profit SEVs. This is in contrast to research on business innovations, which shows that profit motives drive innovators to engage in innovative activities (Van de Ven et al., 2008; Pol & Vile, 2009). In all three cases, a social mission was formulated when the SEV was formally registered in the development period. In the first case, the social mission was defined as the promotion of self-employment opportunities for women. In the second case, the social purpose was deployment of some of the profits to support social sector organisations. Finally, in the third case, the social mission was to raise funds from socially conscious investors looking to make a difference in India.

This study goes beyond acknowledging the social purpose of a social innovation emphasised in previous research to describe how these missions were formulated and resourced in SEVs. Further, evidence from the three cases suggests that the for-profit format of the SEVs provides sustainable solutions to problems rather than seeking an advantage for their organisations in line with Santos's (2010) findings.

### **Scaling Period**

Evidence from cross-case analysis (detailed in section 8.2.3) of the scaling period supports claims made by Austin et al. (2006) that SEVs replicate their business models through organic and inorganic growth or some combination of both these approaches.

In line with previous research, this study found that SEVs enter into collaborations to obtain scarce resources and complement each other's capabilities (Tracey & Jarvis, 2007; Seelos & Mair, 2005). This study goes beyond previous research to describe how collaborations enable SEVs to develop and scale social innovations. Furthermore, the study used social capital theory to explain how collaborative networks contribute to innovation in the case study SEVs.

In summary, this study provides empirical evidence for three identifiable periods of the social innovation process. Such a detailed investigation of the social innovation process is lacking in the nine exploratory studies on social innovations reviewed in Chapter 3 (section 3.3).

### **9.2.4 Capital combinations in the social innovation process**

The second research question formulated for this study was: How are various forms of capital combined in the innovation process to overcome resource constraints? This section addresses this research question in perspective with the literature on social entrepreneurship in general and social innovations in particular.

#### **Financial capital: resource constraint in the social innovation process**

The evidence from this study supports assertions made in previous research that financial capital is a constraint for social innovations (Austin et al., 2006). Cross-case analysis (sections 5.3.3, 6.3.3, and 7.3.3) indicates that financial capital was scarce during the initiation period in the three social innovations investigated. This is in line with the findings of an empirical study by Sharir & Lerner (2006) conducted on Israeli social ventures. Similarly, a recent large-scale cross-country study of 36 countries by Hoogendoorn et al. (2010) reported that social entrepreneurs (in contrast to their commercial counterparts) experience more financial start-up barriers. In a recent empirical study, Corner and Ho (2010) argue that the resourcefulness of social entrepreneurs to use whatever resources they have in hand can be explained through the concept of effectuation (Sarasvathy, 2001) or bricolage (Weick, 1993). However, the present research goes further to explain that a collective approach to opportunity development in the case of for-profit SEVs helps to reduce the need for start-up capital.



Cross-case evidence suggests that financial capital was also scarce during the development period, as discussed in Chapter 8 and summarised in Table 8.4. Cross-case evidence in the scaling period indicates that for-profit SEVs leveraged small amounts of financial capital through collaborations or financial innovations for large-scale replication of their business models. In a previous empirical study, Alvord et al. (2004) assert that SEVs leveraged small amounts of financial capital for large-scale interventions by using a community's social capital. Similarly, Guclu et al. (2002) and Austin et al., (2006) suggest that SEVs commonly use collaborative arrangements to scale their social innovations. This study goes further to explain how the innovative use of financial capital combined with collaborative arrangements enables large scaling of a social innovation. In the first case, daily accounting systems and a cash sales policy enabled the SEV to raise internal finance for scaling a social innovation. Similarly, in cases 2 and 3, stringent financial management practices and collaborations enabled the SEVs to reduce financial requirements. Further, social capital theory was used to explain how social capital was leveraged by for-profit SEVs to reduce financial capital requirements.

There is some indication that the financial constraints evidenced in all three cases may be context-specific to India. For instance, in both case 2 and 3, the social entrepreneurs had invested their personal finance in the start-up stages. Then, all the cases had adopted a for-profit organisational format. These findings are in contrast to research conducted in the UK by Shaw & Carter (2007), which reported that social entrepreneurs tend not to invest their personal finance and neither do they seek to maximise profits or make personal gain. As mentioned in Chapter 8, this difference could be due to a for-profit organisational structure being preferred in a developing country context like India, where institutional support for social entrepreneurship may be lacking. However, these differences require further comparative research to determine how social innovations compensate for financial constraints.

### **Human capital: resource constraint and enabler in social innovation**

As discussed in section 8.3, there is much diversity within the three cases of social innovation investigated, which perhaps reflects sectoral differences. The first case, Lijjat, exemplifies how SEVs can overcome human capital constraints by developing the task specific human capital of its organisational members, and suggests that prior managerial experience is not necessarily a prerequisite for social innovation.

Evidence from the second and third cases, however, is in line with findings from previous research that prior managerial experience of the entrepreneur contributes to the venture's success (Sharir & Lerner, 2006). In both of these cases, not only the founder social entrepreneurs had high levels of generic human capital and industry specific human capital but, also, members recruited in both these SEVs were IT or management professionals. Furthermore, these organisations invested considerable resources to develop the industry specific skills of their recruits. These findings are in line with claims made by Kong (2007), who recommended that social enterprises can potentially develop their intangible forms of capital to overcome financial constraints.

In summary, human capital can be seen as both a resource constraint and an enabler for social innovations in for-profit SEVs. Further, the development of industry/company specific human capital in SEVs enhanced their innovativeness.

#### **Social capital: enabler of the social innovation process**

Evidence from across the cases (as summarised in Table 8.3) suggests that social capital is an enabler of the social innovation process.

This finding supports previous claims that SEVs in resource-constrained environments leverage their social networks in innovation (Di Domenico et al., 2010; Peredo & Chrisman, 2006). In an empirical study, Sharir & Lerner (2006) found that the social entrepreneur's social network contributed to a social venture's success. Similarly, Alvord et al. (2004) found that SEVs leveraged the target communities' social capital while Seelos & Mair (2005) illustrated how cross-sector collaborations enabled such ventures to access scarce resources. However, this study goes further by drawing insights from social capital theory to explain how social capital is extensively leveraged in the social innovation process. Section 8.3 explained in-depth how social capital was leveraged in all three phases of the innovation process for all the SEV case studies.

In summary, the contributions from the participants in this study emphasise the 'social' nature of the social innovation process depicting its dynamic, iterative and complex nature. This provides a deeper understanding of the social innovation process than previous research. Coming back to the overall research purpose of this study: How does social innovation happen in for-profit SEVs?, the answer to this has also already been given. The new capital configurations introduced through social innovations involve a greater leverage of social capital to overcome resource constraints.

### 9.3 Contributions to knowledge

Based on the empirical investigation of social innovation, this research has generated several empirical contributions on the social innovation process as summarised in Table 9.1.

**Table 9.1 Empirical contributions to knowledge**

| <b>Contribution</b>  | <b>Evidence from previous work</b>  | <b>Evidence in this research</b>   |
|--|---|--|
| Distinctive nature of social innovation                            | Resource constraints: financial and human capital implied in case descriptions (Bornstein, 2003; Austin et al., 2006)<br><br>Lack of seed capital in initiation phases (Sharir & Lerner, 2007; Handy et al., 2003)  | Evidence for resource constraints of social innovation (financial and human capital)<br><br>Evidence that social capital is an enabler of social innovation<br><br>Evidence of user involvement (target beneficiary)                     |
| Social innovation process  | Innovation forms (Alvord et al., 2004)<br><br>Innovativeness (Spear, 2006; Weerwardana & Mort, 2006)<br><br>Social mission's role (McDonald, 2007)<br><br>Historical and cultural contexts (Tapsell & Woods, 2010; Overall et al., 2010)<br><br>Use of Strategic niche management (SNM) tool Witkamp, et al. (2011) | New, holistic framework for the social innovation process<br><br>New perspective based on integration of three capital theories on innovation: financial, human and social capital   |
| Social entrepreneur identified as 'innovator' (Schumpeterian view) | Social entrepreneurs with Schumpeterian traits described in Zahra et al's (2009) conceptual paper<br><br>Neo-Schumpeterian thinking to examine innovation in social entrepreneurship (Tapsell & Woods, 2010)  | Active involvement of social entrepreneur throughout the social innovation process<br><br>Social entrepreneurs leverage their human and social capital to access scarce resources<br><br>Collectivist orientation of social entrepreneur |
| Data collection  | Data collected from one type of informant: managers (McDonald, 2007) or social entrepreneurs (Tapsell & Woods, 2010)<br><br>Limited empirical research on social innovations in developing countries  | Interpretive approach: experiences of multiple informants – social entrepreneurs, employees, partners and beneficiaries<br><br>Investigation of social innovation in a developing country context (India)                                |

### **9.3.1 Theoretical contributions**

Based on Eisenhardt's (1989) notion that multiple case studies can be used to inductively build theory, the findings of this study provide some useful insights into the social innovation process as detailed in this subsection.

#### **Contribution 1: Distinctive nature of social innovations**

This research provides empirical evidence of the distinctiveness of social innovation within for-profit SEVs compared to innovation in entrepreneurial ventures. Case descriptions of social innovations in SEVs imply that these develop in resource constrained environments specifically, as they lack access to human and financial capital (Bornstein, 2004; Austin et al., 2006). A large-scale empirical study by Sharir & Lerner (2006) on Israeli social ventures confirmed that the majority of these ventures lacked seed capital in the initiation period. Similarly, empirical research on women founders of NGOs in India by Handy et al. (2003) found that they lacked access to financial capital. Finally, recent quantitative research by Hoogendoorn et al. (2010) has confirmed that compared to commercial entrepreneurs, social entrepreneurs experience more financial and informational start-up barriers. However, none of these empirical studies provide reasons for the lack of access to financial capital. Evidence presented in Chapters 5, 6 and 7 (5.3.3; 6.3.3; 7.3.3) of this thesis suggests that financial capital was deficient in all the cases of social innovations investigated. Further, the findings of this exploratory study suggest that resource constraints exist because of the ambiguity associated with social value, which in turn results in information asymmetry between the social entrepreneur and other stakeholders.

Previous research suggests that social capital may play a significant role in social innovations (Mair & Marti, 2006; Yitshaki et al., 2008). Empirical research conducted on secondary data by Alvord et al. (2004) reported that SEVs leveraged the social capital of the target beneficiaries or communities they serve. In another empirical study, Sharir & Lerner (2006) reported that the social network of social entrepreneurs contributed to venture success. However, none of the existing studies have used insights from social capital theory to explain social innovations. In Chapters 5, 6 and 7 (sections 5.3.3; 6.3.3. and 7.3.3) of this thesis, insights from social capital theory are used to analyse how different forms of social capital are leveraged in social innovations to compensate for existing resource constraints. This exploratory research concludes that the extensive use of social capital is what makes social innovation 'social'.

### **Contribution 2: New insights into the social innovation process**

The foremost contribution of this research is the development of a new capital-based framework on social innovation that is empirically validated on three cases of for-profit SEVs in India (Chapters 5, 6 and 7). Such a framework is lacking in extant empirical studies on social innovation (section 3.3). For instance, Alvord et al. (2004) identify three innovation forms. Studies by both Spear (2006), in the UK, and Weerwardana and Sullivan Mort (2006), in Australia, highlight the innovative nature of social entrepreneurship. Then, the significance of social mission on innovation in non-profits is emphasised by McDonald (2007). Similarly, Tapsell and Woods (2010) and Overall et al. (2010) highlighted the importance of cultural and historical contexts for social innovation based on research conducted in New Zealand. Finally, Witkamp et al. (2011) used Strategic niche management (SNM) tool to investigate cases of radical socio-technical innovations.

The final framework (Figure 9.1) presented in this study integrates three capital theories on innovation: financial, human and social, to provide a holistic explanation of the social innovation process. It depicts how social entrepreneurial ventures identify social needs as social entrepreneurial opportunities, then initiate, develop and scale the conjectured solutions, thereby, generating economic value (in the form of new services and products) and social value (benefits to the target beneficiaries). This research has shown that financial capital theory is adept at explaining the resource constraints in innovation (Hall & Lerner, 2010). Human capital theory is more adept at explaining the creativity of individuals involved in the innovation ventures (Cooper et al., 1994). Finally, social capital theory is more adept at explaining how entrepreneurs and entrepreneurial ventures use their relationships to access scarce resources and useful information for innovation (Tsai & Ghoshal, 1998). In previous research, scholars such as Bourdieu (1996) have highlighted the fungible nature of different forms of capital. This research has pointed to the complementarities that exist between each of the capital theories on innovation and shows how a synthesis of the three capital theories can provide a more holistic explanation of the resource combination that happens during entrepreneurial innovation.

### **Contribution 3: Social entrepreneurs as innovators**

Researchers argue that social entrepreneurs being innovators exemplify the Schumpeterian entrepreneur. For instance, Zahra et al's (2009) conceptual paper describes social entrepreneurs with Schumpeterian traits as 'social engineers'. In a recent empirical study, Tapsell and Woods (2010) and Overall et al. (2010) used neo-Schumpeterian thinking on innovation to investigate

entrepreneurial activity within Maori tribes in New Zealand. However, none of these studies empirically describe the role of the social entrepreneur in the innovation process with regard to capital (resource) combinations as suggested by Schumpeter (1934) in his seminal work.

This thesis provides empirical evidence in Chapters 5, 6 and 7 that social entrepreneurs introduce new capital combinations in the social innovation process. Further, the evidence from the three cases of social innovation investigated in this study suggests that more collectivist forms of entrepreneurship are involved in SEVs. Previous research on community-based entrepreneurship, by Peredo and Chrisman (2006) in Latin America and Corner and Ho (2010) in New Zealand, have indicated such collective orientation. In this thesis, empirical evidence for collective entrepreneurship, team entrepreneurship and collaborative entrepreneurship were found in Chapters 5, 6 and 7 respectively. Thus, by providing empirical evidence on the role of the social entrepreneur as an innovator, this thesis lends credence to claims made by scholars in social entrepreneurship, innovation and entrepreneurship literatures that entrepreneurs are key actors in the innovation process.

#### **Contribution 4: An interpretive approach to social innovation**

The interpretive approach adopted in this thesis meant that the innovation experiences of multiple informants involved in social innovations were gathered. The majority of existing qualitative studies conducted on social innovations involve case study analysis. For instance, in their study, Alvord et al. (2004) deploy multiple case studies and identify characteristics of the innovation based on pattern recognition in secondary data. In another empirical study, McDonald (2007) uses mixed methods but limits his data collection to gathering views of the key informants such as managers. These studies fail to capture views of other key actors in the social innovation process such as social entrepreneurs, who, as explained earlier, play multiple roles and target beneficiaries who benefit from the social innovation. The interpretive approach adopted in this study helped to provide a detailed description of the historical, social and organisational context of the social innovation as emphasised in previous research (Tapsell & Woods, 2010; Overall et al., 2010). As detailed in Chapter 4 (section 4.2.4.1), semi-structured interviews were conducted with the social entrepreneur(s), employees, partners and target beneficiaries of the social innovation. In contrast, previous qualitative research has gathered views from a single type of informant: social entrepreneurs (Tapsell & Woods, 2010) or managers (McDonald, 2007) to investigate social innovations.

Another major contribution of this research is that it investigates social innovations in a developing country context, India. India was selected for this study as it is associated with high levels of social entrepreneurial activity (Mair & Marti, 2006; Alvord et al., 2004; Nicholls, 2006). However, the majority of existing studies on social innovation have been conducted in Anglo Saxon countries, for example: the USA (McDonald, 2007); New Zealand (Tapsell & Woods, 2010; Overall et al., 2010); Australia (Weerwardana & Sullivan Mort, 2006) or the UK (Bridgstock et al., 2010). This thesis suggests that research in developing countries could provide further insights into how social innovations develop under resource constraints and without significant institutional support.

### **9.3.2 Implications for the social entrepreneurship practice**

In spite of limitations such as data, context and sample this study demonstrates why social entrepreneurs and SEVs should understand *how social innovation happens within resource constrained environments*. The findings indicate that a number of implications for practitioners can be made. However, these recommendations are merely indications of what is possible and are not intended to be prescriptive.

#### **Leverage the beneficiaries' social capital**

The findings from the empirical investigation of three cases of SEVs suggest that social innovations can involve leveraging social capital to overcome resource constraints. In particular, the more collective forms of social capital such as that which exists in communities can be used. Similar observations were made by Peredo and Chrisman (2006) in a study that investigated community ventures in remote areas of Peru. In other research, Mancino (2005); Mancino & Thomas (2005); Thomas, A. (2004); Borzaga and Alceste (1998); Pezzini (1997) and Rossi (1996) provide several examples of social cooperatives in Northern Italy that originated in the 1970s as an innovative response to social needs. In these studies, the authors argue that the success of the Italian model of social cooperatives (of which there are over 5000) is largely dependent on their ability in leveraging collectivist forms of social capital specifically of the local community as stipulated in Italian law.

It is imperative here to note that successful utilisation of more collectivist forms of social capital is more likely in grassroots movements where the target beneficiaries themselves are collectively engaged in the process of their empowerment. For instance, in the example of CBEs in South America, poor populations in remote areas were collectively engaged in entrepreneurship as a

prospective means for alleviating poverty (Peredo & Chrisman, 2006). Similarly, in the Italian social cooperatives it is the local community or disadvantaged groups that are engaged in a more collectivist form of entrepreneurship. Based on the success of the above mentioned examples, there is a strong case for social entrepreneurs and social investors to consider local expressions of social capital while developing social innovations. Their innovation strategies could involve leveraging the existing social capital of local communities or disadvantaged groups to ensure solidarity and utilisation of existing community skills (human capital). However, it is imperative to point out here that such community social capital develops organically over long periods of time and as such cannot be imposed through an external agency. With this in mind, social entrepreneurs could leverage the social capital of communities by designing new organisational forms that offer some form of ownership to these communities such as cooperatives.

### **Greater beneficiary involvement in social innovation**

Evidence from this study suggests that greater beneficiary involvement ensures successful development and scaling of a social innovation. For instance, the target beneficiaries could be involved in the development of the value added offerings (new services/products). Greater engagement can be achieved by developing a better understanding of their needs or social problems through closer and more regular interaction with the targeted groups. This would enable a social entrepreneur to find a better fit between the social problem (through deeper understanding) and his or her conjectured solution or new idea. These iterations would eliminate any flaws or modify features of the social innovation before scaling it thereby reducing costs associated with developing innovations.

During the development stage of the social innovation, closer relationships with investors could help access scarce financial resources. Finally, in the scaling phase, greater involvement with the target beneficiaries can help reduce marketing and search-related costs for SEVs. Thus, greater engagement of beneficiaries throughout the social innovation process can help in the successful initiation, development and scaling of a social innovation.

### **SEVs looking to innovate need to develop their intangible assets**

Evidence from this study indicates that innovative SEVs invest considerable resources in developing their intangible assets, specifically, human and social capital. This is especially important as findings from this study indicate that SEVs have difficulty accessing financial capital (Austin et al., 2006).



Research investigating innovation in commercial entrepreneurial ventures argue that in the contemporary knowledge-based economy, intangible assets are more critical than tangible assets (financial capital, machinery) for value creation in activities such as innovation (Guthrie, 2001; Peppard & Rylander, 2001). Thus, by focusing on better evaluation and development of their intangible assets, SEVs can overcome resource constraints in their environment as claimed by Kong (2007).

This section articulated the main theoretical contributions of this research and included possible innovation strategies that practitioners in SEVs could deploy. The following section focuses on developing a future research agenda for the author.

## **9.4 Future research agenda**

Overall, the present study has attempted to further develop our understanding of the social innovation process by identifying the role of various forms of capital in the innovation process. The research has generated interesting findings on the nature of social innovations and has led to the development of a new, capital-based framework for explaining the social innovation process. Further, this framework was validated through empirical research on three cases of SEVs in India. Based on the combination of empirical evidence and applied theories, this study's results can provide some interesting avenues for future research on social innovation and social entrepreneurship. In this section, some of the research themes worth considering are presented and these are summarised in Table 9.2.

### **Theme 1: Comparative analysis of the social innovation phenomenon**

It was not the intention of the current research to find out how SEVs in different cultures innovate, though case study organisations were located in India (3 cases) and the UK (1 case and a pilot case). In future, a cross-cultural examination of social innovation may provide substantial benefits, especially if one compares Asian with Western societies as some researchers, like Hofstede (1991), maintain that these possess different value systems. Further, both India and the UK have democratic political systems which may be tolerant to collective action by marginalised groups. However, this may not hold true for other political systems such as socialist or communist societies. Thus, the author recognises that one avenue for future research would be to compare social innovation in different cultures, political systems or economic environments.

**Table 9.2 Future research agenda for author**

| Themes  | Evidence from this research  | Further Research  |
|---|--|---|
| Nature of social innovation                               | <p>The business model of for-profit SEVs is innovative as it represents a new organisational form</p> <p>For-profit SEVs develop new services/products that benefit or engage marginalised groups in society</p> <p>For-profit SEVs lack access to financial and human capital</p> <p>Social capital plays a significant role in the initiation and development of social innovations in for-profit SEVs</p> | <p>Conduct comparative analysis of social innovation phenomenon from perspectives of different cultures, political systems or economic environments</p>   |
| Applicability of the new social innovation framework      | <p>Integrated framework for social innovation depicts the antecedents, process, context and outcomes of the social innovation process</p>  | <p>Conduct further research to examine the wider applicability of the social innovation framework, for instance in different sectors or different types of SEVs</p>   |
| Role of the social entrepreneur in the innovation process | <p>Multiple roles are performed by the entrepreneurial function which can be a single individual or an entrepreneurial team or more collectivist group as in a cooperative</p>   | <p>Conduct further research using cognitive psychology to examine how social entrepreneurs identify innovation opportunities</p>  |
| Social capital as enabler of social innovation            | <p>Social entrepreneurs use pre-existing social ties (personal social networks) to gain useful information and access to scarce resources in innovation</p> <p>Social entrepreneurs widen their social networks and convert them into organisational networks as the innovation develops</p>   | <p>Conduct further research using social network analysis (from sociology) to investigate the nature and development of social networks in greater detail</p>   |
| Data collection   | <p>New perspective using interpretive approach that captures diversity of views on innovation</p> <p>Evaluation of the role of capital over the course of the innovation process</p>   | <p><b>Applies to all themes*</b></p> <p>Large sample for generalisation ;</p> <p>Alternative methodological approaches such as longitudinal studies</p> <p>Investigate in more detail the impact of cultural differences on social innovation</p> |

## **Theme 2: Examining the wider applicability of the social innovation framework**

The author of this thesis recognises that to claim the universality of the presented capital-based framework for social innovation would require further research into different sectors and different types of social entrepreneurial ventures. For instance, the research sample in this study was limited to for-profit SEVs in India who operate in dynamic and competitive business environments. One of the research findings is that for-profit SEVs lack access to human and financial capital. However, SEVs can also be organised as non-profits or cross-sector forms and have access to government funding and philanthropic donations. It is likely that such funding bodies impose restrictions on the type of activities that can be undertaken by the SEV. Thus, it would be interesting to investigate how funding influences innovation and whether non-profit and cross-sector SEVs also find it difficult to access finance for innovation and how access to external finance influences the social innovation process.

In terms of research methodology, the author recognises that a quantitative study or a longitudinal, in-depth study of a social innovation may help overcome some of the limitations of the present research. Thus, this may create another opportunity for additional research.

## **Theme 3: Analysing the social networks of social entrepreneurs/SEVs**

This research has shown that social entrepreneurs or SEVs use their social capital to overcome resource constraints. However, further research is needed to analyse the social networks of the social entrepreneurs. The data collected on affiliations (prior social connections) networks in this research lends some credence to the suggestion that there are pre-existing social ties amongst social entrepreneurs and their associates. However, the nature of these social ties and their usefulness in mitigating uncertainty and resource constraints could benefit from further primary research that analyses the social networks of social entrepreneurs or SEVs. Thus, another research track could involve conducting social network analysis and the possible future research questions that can be investigated are as follows:

- How do social entrepreneurs/SEVs actually use their social networks in innovation?
- Do social entrepreneurs/SEVs build on their social networks in their innovation strategy?  
Are the social entrepreneurs self-conscious about the value embedded in their social connections?
- What role does trust play in innovation? How does trust facilitate innovation?

The above is not an exhaustive list of research questions that can be pursued empirically in future research work. It does show, however, that this research has set out an agenda that is full of empirical research possibilities. The empirical work, for example, can provide an answer as to whether social entrepreneurs engaged in innovation consciously manage their social ties to profit from them. In the literature there are two contrasting views on the type of social capital and its influence on innovation. The first view put forward by Burt (2005) suggests that an actor may *choose* to have many non-redundant contacts in their network (that is, weak social ties) in order to gain fresh information which can prove to be valuable in innovation. Thus, this view suggests entrepreneurs are likely to form wider personal networks in order to access new ideas. The contrasting view put forward by scholars like Lin (2001) suggests that trust that builds from frequent interactions (or strong ties) within a closely-linked network may enable an actor to access other forms of capital. This view therefore suggests that entrepreneurs use their close contacts to access other forms of capital. Both these views regard social ties as social capital but there are minor differences in the two approaches. The future empirical work can focus on this interesting aspect of social networks and investigate how different types of social ties (strong or weak social ties) or social connections are actually used and developed by social entrepreneurs to facilitate innovation.

It can be noted from the above discussion that the research agenda outlined allows the researcher to stay at the cusp of current debates taking place in innovation literature and social capital theory. These debates are essentially focused around questions like: What constitutes social capital and how does it impact innovation? Is social capital a collective or an individual resource? Which is more useful for innovation – the existence of strong ties that help to build trust and cooperation or weak ties that enable one to gather non-redundant information? All of these questions are in search of empirical answers and it is in this direction, the future research work of the author would follow.

## **9.5 Closing remarks**

My research journey was nothing like what I had envisaged at the start. I had thought of adopting a pragmatic approach to research by investigating concerns of practitioners engaged in social entrepreneurship and attempting to address those concerns by recommending solutions. I also wished to remain focused on the initial research question. However, my experience with the

academic world has been quite illuminating and my preconceived notions of what constituted academic research have been completely altered.

During the course of my research, I have personally become more tolerant to other kinds of opinion and accept that there are alternative interpretations of reality. I have realised the futility of conducting research for the sake of following so-called management fads or trends. My Postgraduate education in economics and finance had trained me in statistical analysis with a more objective view of the world in order to 'capture numbers, trends and patterns'. However, this research experience has made me realise that quality research, especially in social sciences, is not just about providing answers (or solutions to management problems) but also about asking the right questions. I have come to appreciate the advantages of conducting qualitative research that recognises the inter-subjective nature of the social world in order to understand the '*story behind the numbers*'. As a result of my experience, I have become open minded and my research competency has grown in the past three years.

Finally, I have learnt that research is time consuming and a more disciplined approach to time management is needed to complete the task in hand. My personal learning from this research journey is that innovation is a major driver of change and that by being innovative in ones' own life one can bring new ideas to work.

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## **Appendix A: E-mail to Organisational Gatekeepers**

**RE: Research on Innovation in Social Entrepreneurship**

**Dear “Given Name or Family Name”,**

**Thank you for your interest in participating in research on social entrepreneurship.**

**To briefly introduce myself, I am investigating innovation in social enterprises for my doctorate at Oxford Brookes University, UK. Currently, I am writing a research project. I am interested in gathering experiences and opinions of a few personnel of your organisation who are involved in innovation activities by interviewing them.**

**Before we up to arrange the interviews, could you please read the participant information sheet and return the consent form to me by e-mail. As mentioned in the attached sheet, all data will only be used for academic purposes.**

**As already indicated, the interviews will last up to an hour. Thanks in advance for your interest. I am looking forward to our discussions.**

**Regards,**

**Punita Bhatt  
Associate Lecturer and PhD Student  
Oxford Brookes University  
Oxford  
UK**

## **Appendix: B: Participant information sheet**

Information sent to potential participants prior to their recruitment

### **Project title: An exploration of the innovation process in social entrepreneurship**

Thank you for expressing an interest in this research project. I would like to invite you to take part as your experience is particularly relevant to this study. Before you decide, I would like to explain why this research is being carried out and what it will involve. Please take time to read the following information carefully. Social enterprises provide innovative solutions to social problems and help transform the lives of disadvantaged members of society. The Nobel Prize Committee, noted that Grameen Bank and its founder, Muhammad Yunus, winners of the Peace Prize in 2006 brought economic and social development for millions world wide through the innovative concept of micro-credit. Social enterprises face challenges in developing and diffusing innovations such as resource constraints and the need to adhere to their social mission. This research investigates the innovation process in social enterprises (SE) and an area that has been overlooked by researchers. The personal experience, of the influences—both internal and external- by managers and entrepreneurs who are directly involved in the innovation process in the organisation forms the specific focus of this research. Based on case analysis and interviews to be conducted with a wide variety of professionals working in or with social enterprises in United Kingdom and India, the overall aim of this project is to make recommendations to management in SEs that can support them to strategically manage the innovation process.

I would very much appreciate the opportunity to interview you. The face to face interview will last up to an hour, during which you will be asked to share your experiences and perceptions relevant to the topic with the researcher, Punita Datta. The interview will be conducted at your workplace or other place of your convenience). The interview will be audio-taped to eliminate the need for note taking. Also, any travel expenses incurred by you will be reimbursed. In the Pilot study, to be conducted between Feb. and April, 2009 in the UK around twenty informants from social enterprise/s will be interviewed. For the main study, to be conducted between April and December, 2009 around twenty participants from social enterprises in UK and India will be interviewed.

All information collected in the course of this research will be kept strictly confidential, within the limitations of the law. Paper records will be kept in locked filing cabinets and the electronic files and data will be password protected. In line with Oxford Brookes University's policy on *Academic Integrity*, the data generated will be kept securely in electronic form for a period of five years after the completion of the research project. All data collected will be immediately de-identified to ensure anonymity, that is, codes will be used to identify research participants replacing their names. The findings from this research will be used within Punita Datta's doctoral thesis, and may form the basis of articles submitted for publication in appropriate entrepreneurship journals. Participants would be referred to by pseudonym in any publication resulting from this research. Obviously, copies of any article accepted for publication will be provided to you, should you wish to receive them.

The decision to participate in this research is entirely up to you. In case, you decide to participate, and thus contribute to further understanding of the research topic, you will be given this information sheet to keep and asked to sign a consent form. Also, please note that you are still free to withdraw at any time and without providing a reason.

This study is being conducted by Punita Bhatt Datta, a doctoral student and Associate Lecturer from the Department of Hospitality, Leisure and Tourism Management of the Business School at Oxford Brookes University (OBU). Punita is supervised by Dr. Levent Altinay and Dr. David Bowen, both senior researchers within the Business School at OBU. The research programme which started in January, 2008, will run for approximately three years. **If you are interested in taking part or require further information, please feel free to contact Punita Datta** at the Business School, Oxford Brookes University, Gipsy lane, Oxford, OX3 0BP, or by e-mail [pdatta@brookes.ac.uk](mailto:pdatta@brookes.ac.uk), or by telephone on (44-0-1865)483858 or mobile(07846622569). This research project has been approved by the Oxford Brookes University Research Ethics Committee. In case, you have any concerns about the conduct of this study, please contact the Chair of the University Research Ethics Committee on [ethics@brookes.ac.uk](mailto:ethics@brookes.ac.uk).

## **Appendix: C: Introductory questions**

*\*prior to commencing interviews*

1. The full name of the participant.
2. The position/job title of the participant (I knew this beforehand via personal contact or information from organisational gatekeeper).
3. The role of the participant in the social innovation being investigated (I knew this beforehand via personal contact or information from organisational gatekeeper).

## Appendix D: Pilot Study

### The Pilot Study

For this thesis, a pilot study was conducted on a for-profit, social entrepreneurial venture: **the Connectives** in Manchester. Access was gained following an informal chat the author had with its founder, Ms. Liz Cross at a social enterprise conference held by Blackburn House in Liverpool. An interview guide was prepared that was initially piloted by conducting semi-structured interviews on two of the social entrepreneurs from **the connectives**, one of their clients and one of their associates in India. In all, four interviews were conducted for the pilot study. Based on the interviews, the interview guide tested in the pilot study was amended as shown below (sample interview guide amendment).

### Interview guide with comments from Pilot

#### Interview Guide (for Social Entrepreneurs/Founding team-Founders)

**Question 1:** To begin, I would like to learn about your **personal story** as an entrepreneur. Can you tell me, what do you do now? What most attracted you to this work? What do you find most valuable and challenging in your current work?

Replace with: How did you come up with the idea to set up XYZ?

**Question 2:** What were some of the twists and turns in your story? For example, what was the biggest challenge? How did you overcome these challenges? What resources did you draw on? How did you raise funds? Was there a need to convince stakeholders about the value of the action? What was the cost of the innovation in both human and financial terms?

**Question 3:** I would like you to reflect for a moment on your experience with the potential of entrepreneurship in providing social benefit. Think about the time when you decided to take part in an effort to use business in a way that created benefit for society. Did you believe that business can benefit society? How can social enterprises in general achieve economic and social goals?

**Question 4:** Please describe the **core innovation/s** in your organisation at its inception. How did you come up with the idea? Who was involved? What was your role? What resources did you draw on?

Replace with: How do you think XYZ makes a difference? What is unique about the services offered/product by your enterprise?

**Question 5:** Please describe the last new service/s your organisation developed in the past few years. How did you come up with the new idea? Who was involved? What brought it about? What role did you play? Why do you think innovation is significant to your organisation?

**Question 6:** Often, many events converge to make certain stories possible. What factors facilitated the emergence of new ideas in your story? What was happening in the environment, relationships, or other issues that allowed for the innovative action? What was innovative about the effort?

Replace with: Tell me the story of how you grew/scaled your enterprise. What were the important events? How did they unfold? What led to your success?

**Question 7:** Consider for a moment the impact in this story on you as an individual, on your organisation, on your clients and your local community. How do you personally measure the impact of the action? Do you see any financial or social indicators of success? How would you describe the tangible impact of this innovation on others?

**Question 8:** Nearly every action intended to create benefit is motivated by a philosophy or set of beliefs about society. What do you believe was the motivation behind the effort(s) you have just described? What values, beliefs, or assumptions about benefit in society were fundamental to the design of the innovation in your story?

**Question 9:** Now think about the long-term impact of the innovation you have described. What will be the legacy of this work? How can this innovation or practice be scaled up, or applied in other situations to achieve even greater impact?

**Question 10:** Think about the lessons you have gained from the story. What do you think others can learn about the role of social enterprises in society from your story? What are the common questions or misconceptions about the role of business in social ventures? What message would encourage people who are inclined to make change through the use of business in society?

Replace with: How do you encourage creativity in your organisation?

**Question 11:** Is there anything you want to ask me or want to share with me before we finish? Do you know of other interesting examples of social enterprises you have been associated with that have similar stories? Do you have contact information for individuals who could describe these stories?

### **Concluding remarks**

Thank you for your time. If you have any further ideas you would like to share with me, or questions about the project, please feel free to contact me.

### **Analysis of the Pilot study:**

The data collected from the pilot study suggested the following:

- 1) The interview time of half an hour was too short for collecting the responses of the participants. Thus, the interview time was revised to approximately 1 hour;
- 2) The interview questions were too long for the respondents. The structure of the interview questions needed to be simplified and re-phrased according to the common terminology used by the social entrepreneurs and their associates in the pilot study. Thus, the interview questions were shortened and words such as 'innovation' were replaced by words like 'new idea';
- 3) The analysis of data from the pilot study resulted in a revised interview guide as attached.

## **Appendix E: Interview Guides for main study**

### **Introduction**

Thank you for meeting me. This interview is part of my PhD study on how social enterprises find innovative solutions to societal problems. I have sought this interview with you because I believe you have a unique perspective or story that deserves to be shared.

### **Interview Guide (for social entrepreneurs/founders)**

1. How did you come up with the idea to set up XYZ?
2. How do you think XYZ makes a difference? What is unique about the services offered/product/organisation by or of your enterprise?
3. Tell me the story of how you grew/scaled your enterprise. What were the important events? How did they unfold? What led to your success?
4. How do you encourage creativity in your organisation?

### **Interview Guide (for social intrapreneurs-senior management)**

1. To begin, I would like to know what attracted you to this work and to work in XYZ?
2. Are you involved in activities that contribute to development of new services or new processes in the organisation? What is your role?
3. Can you describe a new service launched/new process adopted by your organisation? Who was involved? What were the activities involved? Was there training provided?
4. If you had an innovative idea or concept. How would you take it further in your organisation?

### **Interview Guide (for external informants-clients, partners)**

1. To begin, I would like to understand your unique experience with XYZ\* (Clients) OR your association with XYZ(for partners)
2. Can you please describe the benefits of XYZ services for you? (client) OR benefits of collaboration with XYZ? (partner)
2. Can you describe your interaction with XYZ(client)/association with XYZ (partner)?

## **Appendix F: Contact Summary Form**

1. Main issues
2. Summary of the information in response to questions.
3. Illuminating or interesting facts mentioned by informants or observed in addition to questions posed.
4. What new (or remaining) questions could be included or emphasised in the following individual semi-structured interview at the case organisation/s?

*Source:* Adapted from Miles & Huberman (1994).